

BUSINESS BUILDING

BUSINESS BUILDING

A COMPLETE GUIDE TO BUSINESS FOR THE WHOLE-
SALER, RETAILER, MANUFACTURER, AGENT, ETC.

Edited by FREDERICK F. SHARLES

F.S.A.A. (GOLD MEDALLIST), A.C.I.S.

ASSISTED BY UPWARDS OF THIRTY SPECIALISTS AS CONTRIBUTORS
WITH NUMEROUS PHOTOGRAPHS, DIAGRAMS, FORMS, ETC.



In Two Volumes

VOLUME II

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SECTION OF ENAMEL-MAKING WORKS

Messrs. Karsley & Co., Ltd.

Frontispiece

SECTION 25

The Law Relating to Shops

By R. W. HOLLAND, O.B.E., M.A., M.Sc., LL.D.

CHAPTER I

LEGISLATION AFFECTING SHOPKEEPERS

THE special laws relating to shops and the sale of commodities therein have been briefly touched upon in preceding sections, but it still remains to consider the changes made by the legislature in the conditions of service of those employed in the distributive trades. A series of Acts of Parliament was passed between the years 1892 and 1911 and in 1912 these Acts were consolidated into the statute now known as the Shops Act, 1912. This Act has been amended on several occasions, and the position of shop assistants has greatly improved in consequence. To 1912 all legislation in relation to Shop Regulations was directed towards the improvement of the life of employees, but more recent legislation had for its object the consolidation of public safety.

Early Closing.

The rules as to early closing, to-day, are in fact based on the eight o'clock rule laid down by the Home Secretary under power granted to him in Regulation 10B of the Defence of the Realm Regulations. Under this order every shop was to be closed in the evening, for the serving of customers, not later than 8 o'clock on week days, other than Saturday, and not later than 9 o'clock on Saturdays.

If it can be shown that the customer was already in the shop at closing time, no penalty was entailed if he was served afterwards. Further, certain exceptions were made in favour of purchasers, after closing time, of articles required in case of illness; meals on the premises; newly-cooked food for consumption off the premises; fish; soft fruit likely to deteriorate if kept, such as apricots, bilberries, blackberries, cherries, currants, green figs, greengages, gooseberries, loganberries, mulberries, peaches, plums, raspberries, and strawberries; newspapers; medicine; medical or surgical appliances; motor and cycle accessories for immediate use; and tobacco supplied at a meal for immediate consumption. In the case of medicines, surgical appliances, motor and cycle accessories the shop must not be lighted or kept

open beyond the time necessary for serving the customer.

The law was deemed to operate harshly on the proprietors of the entertainment houses who had been accustomed to sell sweets, chocolates, ices and the like to their patrons, and a demand was made for privileges to be extended to such persons. To grant these privileges would have been a hardship on the ordinary trader, but a general exception was made allowing the sale generally of such commodities up to 9.30 p.m. on week days, other than Saturdays, and up to 10 p.m. on Saturdays.

General Provisions of Law.

The foregoing were general rules under Defence of the Realm regulations as amended by statutes in 1920 and 1921 after the Defence of the Realm Regulations had ceased to operate, but the general provisions of law are contained in the main Shops Act of 1912 under which a local authority, that is a county council, a county borough council, a borough council, an urban district council with 20,000 inhabitants, or any other district council as agent of the county council, may make a "closing order" in respect of shops within its area or in respect of shops of a specified class, e.g. butchers. Such orders are generally made after consultation with traders or classes of traders in the district, and, indeed, the Act provides for the approval of at least two-thirds of the traders affected. Any closing order made shall not provide for a closing time earlier than 7 p.m., and when made it will not affect retailers of intoxicants, refreshments for consumption on the premises, newspapers, tobacco, and smokers' requisites, medicines, medical and surgical appliances. Railway bookstalls are not affected nor are post offices which are otherwise regulated. It is not necessary on the stroke of closing hour to see that the shop premises are empty, and it is permissible to serve all who enter *before* closing time provided none is admitted after the time arranged. Quite apart from the closing order of the council it is usual amongst classes of traders for agreements to be made limiting opening hours and, of course, there is no limit to the earliness of operation of such agreements. For instance, drapers may agree to close at 6.30 even in an area where 7.30 p.m. is

the time fixed by the local authority for closing generally.

Effect of Closing Order.

A closing order, confirmed by the Home Secretary, is as effective as an Act of Parliament, and contravention of such order is punishable by a fine of £1 for the first offence, £5 in a second case, and £20 for any further offence. It must not be thought, however, that an order once made is final. It may be cancelled by the King in Council

CHAPTER II

THE HALF-DAY CLOSING

THE terms "shop" and "shop-assistant" include far more in themselves than would generally be expected. The former includes all premises where any retail trade or business is carried on, including the business of a barber or hairdresser, even although he offers nothing for sale, or a retail auction sale held in the open. "Shop-assistant"



Photo

A MUSIC DEPARTMENT
(Messrs. Paish & Co.)

Kealeys Ltd.

on petition of either House of Parliament within forty days of the order being laid before the House. Or again, the local authority may apply to the Secretary of State to revoke the order in a case where it is clear to the authority that the majority of retailers affected do not approve.

Where no closing order operates an enquiry as to the demand for early closing in a locality can be instituted by the Home Secretary at the instance of the local authority or of a joint representation of occupiers of shops and of shop assistants. If it is found on enquiry that there is a genuine demand for early closing an order will be made based on the findings of the person in whose hands the enquiry was placed.

means any person wholly or mainly employed in a shop in connection with the serving of customers, the receipt of orders or the despatch of goods. Thus a person in the kitchen of a hotel restaurant might well be conceived to be included in the definition. Special provisions to meet such cases have been made in the Shops Act, 1913.

The Shops Act, 1912, lays down that every shop shall be closed *for the serving of customers* not later than 1 o'clock in the afternoon of one day in every week. The day is not one that may be chosen arbitrarily by the shopkeeper but will usually be the day arranged by the local authority and notified by an order as "the weekly half-holiday." Whatever day is fixed it is always possible to substitute

Saturday, and if Saturday is the day arranged in the order another alternative should be offered in the order. The occupier of a shop may by notice affixed in his shop, elect as above, but he may not change his mind more often than once in three months.

In Bank Holiday week or in the previous week the half-holiday may be suspended if the shop is closed during the whole of Bank Holiday.

Exempted Trades.

Certain trades and businesses are exempted from the law relating to compulsory weekly half-holidays, and these approximate closely to those to which an early closing order will not apply, namely, the sale of intoxicating liquors, refreshments, motor and cycle supplies and accessories to travellers, newspapers and periodicals, meat, fish, milk, cream, bread, fruit, confectionery, vegetables, flowers, perishable goods, tobacco and smokers' requisites, and medical supplies. Railway bookstalls and retail stalls at exhibitions are also excluded.

Where several businesses are carried on in one shop and one is a business which is exempt, the shop may remain open for the furthering of the business in question. It is usual to set out conditions in an "early closing order" or in the "weekly half-holiday order" to meet such cases, and these terms and conditions must be complied with.

Holiday Resorts.

In holiday resorts the bulk of business is conducted during "the season," and it is usual to fix a period, not exceeding four months in the year, during which the weekly half-holiday is suspended. This affects the shop assistant who is considered quite apart from the shop. Although the shop may remain open during "the season" the assistants must have a weekly half-holiday unless the proprietor satisfies the local authority that he allows his assistants a holiday on full pay for a period of not less than two weeks in each year.

CHAPTER III

SHOP ASSISTANTS

EVERY shop assistant is entitled to a weekly half-holiday but not necessarily on the early closing day. The occupier of the shop shall fix, and specify on a notice displayed in his shop, the day of the week on which his assistants shall be free after half-past one. Usually this will be on the weekly half-holiday fixed by the local authority. The additional half-hour is given in which the last customers may receive attention and other matters may be cleared up. Soon after the passing of the Shops Act, 1912, difficulties arose

in relation to assistants in "shops" not affected by the weekly closing order. It should be noticed that whilst the shops are exempt the assistants are still entitled to the half-holiday.

The 1913 Act.

In order to meet some of these cases the law was amended by the Act of 1913. It is there provided that if the occupier of premises, licensed or otherwise, used for the sale of refreshments, elects to adopt the provisions of the Act, his assistants will not be governed by the half-holiday rule set out above. In order to adopt the 1913 rule he must affix a notice in a conspicuous position on his premises. The notice must refer to the provisions of the Act and show what steps are taken to comply with such provisions, which are as follows—

Hours of Employment.

No assistant is to be employed for more than sixty-five hours, exclusive of meal times, in any week. Every assistant is entitled to thirty-two whole holidays, or the equivalent in half-days, on days other than Sundays in every year. Two such days shall be given in each month and a six-day holiday on full pay is also to be included. Twenty-six Sundays per year are to be the whole holidays, and these shall be so distributed that one out of every three consecutive Sundays is included.

Meal intervals to such assistants shall be not less than three-quarters of an hour on a half-holiday, that is a day on which the worker is employed for not more than six hours, including meal time, and not later than three o'clock in the afternoon. On full days meal intervals shall not be less than two hours in total, and no work interval may exceed six hours without a break of at least half-an-hour.

Meals.

Intervals for meals for shop assistants generally, are regulated by the Act of 1912. They are to be so arranged that no person is to be employed for more than six hours without an interval of at least twenty minutes in the course thereof. And without prejudice to this rule any assistant employed from 11.30 a.m. to 2.30 p.m. must be allowed three-quarters of an hour between such times for dinner. Similarly, those employed from 4 p.m. to 7 p.m. must have a tea interval of not less than thirty minutes. If the assistant has to leave the shop premises for dinner the time must be increased to one hour.

Seats.

For the further protection of female assistants employed in serving in shops, seats are to be provided behind the counter. The number of

such seats must be not less than one to every three assistants in the room.

Workrooms.

Reference has been made in Section 11 (THE LAW RELATING TO FACTORIES AND WORKSHOPS) to the position of assistants in shops having a workroom attached. It should be remembered that such a room is in general a workshop coming within the law relating to factories and workshops. Special rules are laid down and these have already been discussed in so far as they affect both shop-keeper and worker in the workshop.

Assistants under Eighteen.

The Shops Act also provides that no person

under eighteen years of age may be employed for more than seventy-four hours, including meal-times, in any week, nor may the total employment in shop and workroom exceed the figure laid down for workshops (*q.v.*).

In conclusion it should be remembered that a keeper of multiple shops cannot evade the law by transferring assistants on the half-holiday, and the occupier is the person responsible for employing the assistant on his half-holiday. In a recent case a shop-manager in a zealous desire to further his employer's interests, and entirely on his own initiative, elected to work about the shop premises during his half-holiday, but it was held that an offence had been committed and the *occupier* of the shop was liable to a fine.

SECTION 26

Advertising

By ALBERT E. BULL

CHAPTER I INTRODUCTORY

"GET your advertising right and your business will run itself," said a trader recently.

He was speaking broadly, which often means speaking loosely, and advice so worded can easily be harmful. The intention of the remark was right. He really meant, "If you are an advertising firm, your advertising will demand more ability and care than any other part of the business."

Advertising is the most powerful weapon in the hands of the modern trader, but it is a weapon with a terrific recoil and frequently liable to explode at the breach.

It has achieved amazing successes, hurrying some struggling firms from obscurity into front rank positions and creating goodwill values of staggering worth. Its triumphs are written all around us, and stare at us from newspapers, hoardings, and shop windows; while even the honours list of new titles bears testimony to the rich reward of those who paint their commercial acts in printers' ink.

Unfortunately in some ways, the records of failure are not so well known. The man who has lost £50 or £500 or £5,000 on a futile publicity campaign does not like to say much about his venture. Frequently he does not like to think about it too much. It is difficult for the onlooker to observe a proper sense of balance when he is always being reminded of the successes and rarely hears of the failures.

The fact that advertisement has its failures is not presented here with any intent to discourage; but to warn the trader of the un wisdom of regarding its difficulties too lightly.

There are some trades, the Mail Order Business is a good example, which cannot be carried on at all without a liberal use of printers' ink, and there are others, such as importing and brokerage, where heavy newspaper publicity would be an impossible tax under present trading conditions. To a very large degree the business man must be influenced by the nature of the business, before too definitely fixing the value of this method of salesmanship.

In any case, however, he does well, whenever the subject of special advertising arises, to

approach it as a problem requiring the clearest and most sane kind of thinking of which he is capable. Chiefly, he should remember that advertising is not always profitable, and failure is very costly.

At the present time it is advisable for all who are in business, especially those who are just commencing commercial careers, to devote a certain amount of time to the study of this subject, in as detached and broad-minded a manner as possible, for the indications are clear that direct advertising is on the increase, and that many trades at present little influenced by it will increasingly feel its power.

The Economics of Advertising.

Whether on the whole the enormous outlay on publicity brings any reasonable compensating advantages to the community, is a subject too large for discussion here. A great number of consequences result from the outlay, very many of which are entirely to the good.

For instance, the news and periodical press is subsidized to such an extent by the heavy prices obtained for space that it is almost certain the public can buy daily, weekly, and monthly literature at half the price it would otherwise need to pay.

Artists, and, to a lesser extent, writers, find a bread-and-butter help from commerce, which tides them over the lean years of their careers. Frequently, of course, this makes publicity the graveyard of reputations, as the commercial side of the work becomes very attractive and ambition gets strangled or crowded out.

Advertising gives employment to very large numbers of people, employment, too, in which ideas count, and in which originality is stirred. This is a great national advantage, enlarging the average outlook and intelligence.

Advertising work is a good training for the young business man, especially where there are opportunities for him to come face to face with new commercial aspects. (If possible, it is very desirable for the man intending to form his own business to see the inner workings of a publicity campaign. This is not always easy, but should the chance arise of spending a little time in a live publicity business, the opening should not be lightly disregarded.)

But probably the chief service that advertising does for the community is to improve the average quality of goods sold, not simply by putting a premium upon selection so that some people may get the good articles while others must take the bad, doubtful, or medium; but by ensuring thoroughness and care of workmanship, economy,

is not good of its kind. Faulty and poor quality goods have their markets, but their sale is not best suited for heralding with a blast of trumpets. A purchaser of a poor substitute or an inferior grade may bear the disappointment with cheeriness, regarding the transaction as a mistake or a bad bargain; but pompous statements of the



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Sterling Telephone & Electric Co., Ltd.

A SECTION OF A SHOWROOM
Of the Sterling Telephone & Electric Co., Ltd.

and cleanliness of manipulation, and the use of many a contrivance for which the public may be truly grateful, especially when the articles are foodstuffs.

The reasons for this are plainly apparent. Experience has shown that it is the height of unwisdom to endeavour to build up a brand in goods of inferior quality. It may pay to advertise a cheap article, equally with an expensive one, for many excellent things are cheap.

But it does not pay to advertise an article which

virtues of the faulty article in staring print will rouse his resentment.

If you are about to advertise an article and find there are two grades of it sold, one at 10d. and the other at a 1s., you will find that if you bring out the cheaper and puff its virtues, even if you are able to sell it at less than a shilling, with all advertising charges on (which probably you will not be able to do), the superior quality, unbranded article will always rise up in judgment against you. You will find it far easier and far

wiser to place the better article on the market at 1s. 3d. than the inferior at 1s.

The advertiser of experience has a wise distrust of inferior qualities. This works out in several consequences, among which are—

1. Selection of raw material.
2. Selection of economical and wholesome processes of manufacture.

3. Selection of efficient workers.

Carefulness in these actions makes for national benefit. The selection of best materials means that greater efforts are made to produce the best. There is a premium placed upon the finest crops, on the most skilful handling of ores, so as to prevent damage. Greater care is taken to avoid waste and slovenliness in every process.

The selection of best methods tends to make for conservation and increase of value all along the line.

Uniformity of Quality.

Quality, and uniformity of good quality, become increasingly an essential when a brand is advertised; for the advertiser is reminded at every turn that the goods themselves are the most vital part of the publicity campaign.

The writer has occasionally heard a singular theory propounded as to how profit is derived from advertising. It seems likely the notion is held by a considerable number of people.

This was the way one person put it—

“I can guess how advertising pays. These firms advertise and make people buy their goods—then they suddenly drop the quality and draw their profits.”

The other statements were very similar. In no case, it need scarcely be said, was the speaker in business.

A more fantastic idea of reaping benefits can scarcely be conceived. The advertiser may start out with the hope or intention, as time goes on, to produce his goods *cheaper*; and he is justified in the hope, for a larger trade means heavier buying, more economical overhead charges; there are many ways in which increased business tends to reduce average cost, and the advertiser may reasonably expect to take full advantage of these.

But no one would dream of spending good money in the establishment of a brand or trademark and then deliberately plan to get some of the money back by destroying the value of the goodwill established.

It may safely be assumed that the more valuable the brand, the greater will be the effort to maintain quality. There is, of course, always the unknown factor to allow for, and at any time it may happen that the control of a goodwill, worth a large sum, will get into the hands of an unwise and shortsighted person. Such incidents, when they happen, are the tragedies of trade.

Another national or public benefit of advertising is that it can be made to serve the purposes of economy in particular instances. These cases are dealt with in the following chapter.

CHAPTER II

WHO BEARS THE COST OF ADVERTISING?

THE claim, frequently made nowadays, that advertising reduces the cost of goods, should be received with caution and due regard to the natural laws of arithmetic. The arguments by which the claim is justified have an application to a certain number of trades, and to certain methods of business, but even then they only constitute one of those half-truths which are so dangerous when carelessly accepted.

The subject is so important that it seems well to give a little space to it here.

When a new economical method is applied to a branch of trade which has hitherto been loosely and wastefully carried on, the success of that new method depends upon two things: (1) the completeness of the organization; and (2) adequate support from buyers.

The Motor-car Industry.

A good illustration is the motor-car industry. When a sudden demand arose all over the world for this new kind of vehicle, and in a single decade an industry sprang almost out of nothing into the dimensions of a gigantic trade, there was very much of haphazard in methods of construction and sale. Every firm had its own methods and its own arguments.

To a very large extent, each separate car was a distinct work of art, a step in the evolution that aimed at greater perfection. Some makers had great reputations, which they sought to advance by adding one improvement to another, no sooner making a “type” of car than they broke it up by adding a yet newer variation.

All this, of course, meant high prices, loss of effort, cost of experimenting, extravagant allowances for salesmanship, and many other charges inseparable from an industry in the process of remarkable growth. Any really successful endeavour at standardization on a large scale in the early days of cars, might have crippled rather than helped a development from which we are now benefiting.

But it was obvious, throughout all this period, that there was growing up a steady and increasing demand for a car that combined reasonable efficiency with cheapness of cost. It was one of those facts so evident that everyone knew it, but no one knew quite how to take advantage of the knowledge.

The standardized, cheap car at length was placed on the market. A genius at organization arranged his great works on the idea of multiplicity of copies.

In continuous streams the parts of the cars were passed down the long rows of shops—raw material at one end and finished parts at the other—to take their places in that great cross-stream at the end of all the workshops, which, beginning as frame and wheels, passed swiftly on, gathering additions on the way, to emerge at last complete and ready for service.

It was a masterly organization.

An essential to its success was public support—the buying public had to be informed. The economy of these works was to keep the whole going at full tilt, which meant that x cars must leave the shops completed every twenty-four hours.

It was here that advertising skill was called in. Publicity costs were heavy; it was almost needful they should be, to make the plan effective as a whole.

So it came about that the best advertised car was the cheapest car. This was a triumph for advertisement of which we shall never hear the end.

Yet, even with this instance before us, it is rather doubtful whether the claim "Advertising reduces cost" quite holds good. Publicity might have been essential for success, but that publicity required the system behind it.

This is the example of the usefulness of advertising which was referred to in the previous chapter.

The Ultimate Buyer.

The cost of advertising is a cost of salesmanship and is paid by the ultimate purchaser. It may be the cheapest form of salesmanship in certain cases. It is conceivable, for instance, in such a business as the furniture trade, where great varieties of design and style are customary and where very large and valuable stocks must be held at high interest and rent charges, that opportunities of saving will present themselves.

To bring out some special article, already in large demand and capable of being multiplied indefinitely on a standard pattern, would afford such an opportunity. A chair, a desk, a table, with a demand so great that a large factory could be kept in steady activity on its output, might be placed in the hands of ultimate buyers at a lower price than the same kind of article could be sold for if taking the ordinary courses and bearing the usual high charges of the business.

Could such a plan be economically carried out, advertising would almost certainly be a necessary expense, for it would be essential to have public support and to have a method of stimulating

business when there appeared to be a danger of the machinery working too slowly to be economical. For cheap working, a draught of demand would need to be established to draw the goods through the works and the middlemen's hands at an economical speed.

But here, though the advertised article might be cheaper, it would only be telling part of the story to state that advertising reduces costs.

Finding the Money for Advertising.

Some years ago, a small manufacturer resolved to advertise his goods. He was engaged in a trade in which advertisement was practically unknown, and in which competition had brought down prices to the lowest possible level of profit.

He had to face one important fact: that no possible saving in manufacture or selling costs would allow him any reasonable percentage with which to advertise. The business was one of those in which the small factory, producing, say, 3 tons a week, could do so at as low an average price as its bigger opponent could produce 300 tons. So it was evident that a heavily increased business would not reduce the cost of production.

(It is a mistake to suppose that increase of turnover always reduces cost of manufacture. Where skilled personal work is necessary, saving in details on one side are often more than balanced by increased overhead charges on the other.)

Buying in larger quantities offered no hope in this instance, as the difference between buying 5 tons or 500 tons scarcely meant more than a brokerage fraction.

Selling costs in the trade had long ago settled down to a good average 5 per cent.

The amount of turnover was small, so that advertising to any appreciable extent would be a heavy new charge for which there was no margin available.

The small manufacturer boldly took his fate in his hands, selected one line out of the many made, and practically doubled its price. Some of the difference he spent in attractive packages, but the bulk was available for his campaign.

It succeeded. The article that had been available for sale at 4d. or 5d. a lb. was now to be obtained under a brand at 8d. For 4d. or 5d., people might get the best quality or they might get the worst. For 8d., by buying that branded line, they always and invariably got the best that could be made.

Other firms followed the example; soon the majority of the buying public were content to pay more in view of the guarantee of quality assured.

All these manufacturers did not advertise. In taking advantage of a generally raised standard of price, some of them preferred the older methods of salesmanship.

What happened?

One after another they realized that when you are selling a generally advertised line, against advertising houses, the cheapest, if not the only, method of salesmanship is by advertisement.

Here was a trade where the average cost of selling had been 5 per cent. It completely changes its character, and considerable heavier margins were available for selling. Speaking in the broad, advertising has not cheapened those goods, it has increased the price; but, speaking in the separate instance, a firm that has been vainly trying to secure a slice of such business by selling methods that absorb 30 per cent of the turnover, may get better results by spending 10 or 15 per cent in newspaper publicity.

CHAPTER III

NATURAL BEFORE SPECIAL ADVERTISING

EVERY business effort of a trader is advertising. The arrangement of the shop, the courtesy displayed to customers, the neatness and despatch with which business is attended to, the care in the selection of the right classes of goods—these and a thousand other actions which could be named all have their effect upon the up-building of trade and the creation of goodwill.

It is noticeable that the firms that get the best results out of special publicity efforts are usually those that take good care to back up such



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SPECTACULAR LIGHTING OF AUTOMOBILE DISPLAY WINDOW
X-Ray Reflectors, B.T.H. Spotlight Projectors, and Mazda Lamps

The B.T.H. Co., Ltd.

This is what is meant by the claim that advertising reduces cost.

If I bring out a toilet soap to be sold at 2d. a tablet, my selling costs may be comparatively low, if I keep to the markets that buy at such prices. But if I decide: "This is really a very superior article, and quite as good as some of the soaps sold at three times the price; I will immediately compete with the well-known makers and get the same prices as they do," I shall certainly find that my selling costs will fly up to staggering and overwhelming proportions. To bring them down, I shall be almost forced to advertise.

In general, it might be said of most commodities, that where it has not been the custom to advertise, the effect of two or three firms beginning to do so, is an all round increase in price, for the selling costs of those who do not advertise must be increased in proportion as it becomes more difficult to sell unadvertised goods against the brand.

particular efforts by thoroughness in business organization. There have been firms that have endeavoured to place an undue strain upon direct advertising, by letting it take the place of careful and businesslike arrangement of their trade. In nearly all these cases, where advertising is regarded as a power that obviates the need for other methods, the experiment has been futile.

The temptation to many a trader who hears of the enormous success of newspaper and poster publicity is to regard it as a kind of modern day magic, obviating the need for efficiency in business.

No greater mistake can be made. Advertising is so costly that the carelessly contrived business concern is scarcely in a position to reap the last effects of its special outlay, in which lies the profit upon the whole.

"Remember, the top shilling is the profit," said an old manufacturer. It was spoken about business generally, but it is certainly true of advertising. The man who spends a hundred

pounds upon newspaper space is competing against other bidders, and buying from men who know the value to a fraction of what they are selling. He cannot afford to be content with ninety-five pounds' worth of value. It is in reaping the benefit of the last part of his expenditure that he gains his profit.

So the sane man in business, before he begins to spend sums of money in paying for machinery of publication which other people possess, will give a little thought to those means upon which he is already spending money, to see if he is getting the full advantage of them.

He must realize that it is absurd to pay for his name to be painted at a heavy initial cost and at a continual monthly expense for rent, on a board at the station, when his name over the shop door in High Street is undecipherable through grime and age. He will see the futility of sending costly booklets on art paper in heavy vellum wrappers to chance members of the public, when the buyers who already buy from him receive his invoices on paper too contemptible for packing purposes.

That man will not buy poster space at heavy expense when the prominent wall of his factory visible to thousands of passers-by is blank. He will not take columns in the local paper to urge the public to come to a shop which can only be entered at the risk of being hurled into a cellar. He will not spend solid cash urging people to buy a tea that combines the taste of tar with the colour of straw.

The Whole Business an Advertisement.

The root and foundation of all advertising, is to let the whole business be an advertisement. The labels, the stationery, the methods, the mental attitude, the whole organization is the beginning of sound advertising.

This may involve, where a special campaign is contemplated, some simplifying of methods, or even a cutting one part of business from another. Thus, it may happen that a very old-fashioned business, which works well and is too solidly established to be a good subject for reckless modernization, desires to experiment with an advertised line in such a way that it will not interfere with the continuity of a time-honoured policy.

To say to the proprietors of such a concern that they must permeate the ancient structure with the odour of the new experiment, might be like decorating the walls of a bank with puffs of a blanc-mange powder because the chief banker was investing his profits in the company owning the table luxury.

There is a fitness in all things, and where the intention is to make advertisement a special feature relating to a part of a business only, the enterprise may well be walled around and

undertaken without too many obligations to make it a general excuse for a spring cleaning.

But where the advertisement affects the business as a whole, as, for instance, when a retail draper begins to use newspapers as a means of drawing buyers to his shop, or where a manufacturer advertises one special line with a view to making that line a lever for helping his trade in all lines, then, without doubt, every kind of commercial activity must begin to take its place as part of a huge publicity scheme.

And here, one cannot afford to be wise in the newspapers and foolish in the shop. One cannot afford to be statesmanlike in the posters and imbecile in the warehouse.

Advertising as Part of a Business System.

Time was when the capable business man could afford to be a clumsy advertiser, and when the skilled master of publicity could afford to be an indifferent business man.

Those times are gone.

Nowadays, publicity can only safely be regarded as part of a whole—it must fit in with every other part of the enterprise or it will be a source of danger.

When allied armies fight side by side, the point of weakness is where the two armies join. It is there that there is the most likelihood of overlapping or confusion or want of co-ordination. Where the British and French fronts joined each other in France was always a point of danger during the great war.

In precisely the same way, the combination of trading with publicity presents a constant series of perplexing little problems in the commercial world, and just where the two meet is the chief place of difficulty.

Pictures and Letterpress.

The plain, frank truth that the business man has to face is that the moment he begins to address the public he has to use arts and abilities that are rather outside the ordinary scope of business. Pictures and letterpress are the usual means of direct advertising, and pictures and letterpress are outside the range of ordinary commerce.

Increasingly, the advertisers are discovering that if you talk to the world through pictures you must use real artists' stuff, and that if you speak through printed matter, you cannot ignore the way in which authors and journalists do it. The knowledge comes slowly, but it comes. It is now fully recognized as regards the pictures, and though still a kind of special jargon is frequently used in the language of some advertisements, increasingly the value of literary or journalistic writing is being realized.

Here is the risk of the break in a business plan.

It is very difficult for people using a strange medium to make it expressive of themselves, of their goods, and of their policy.

"Ludgate Circus is the most wonderful place

Of course, the two elements can be made to mix. Newspapers themselves are great commercial organizations. But the man meant that the qualities which make the writer are often the



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Messrs. Saml. Haskins & Bros., Ltd.

A DISTINCTIVE SHOW-CASE FRONTAGE

in the world," said an author recently. "It is the place where oil and water meet without mixing. When I am there I always feel a toothache in one side of my face—the side toward the City. There seems to me nothing in common between the free life of Fleet Street and the grave solemnity of dull commerce."

very opposite of those that make the capable business man.

Advertisers who use pictures and letterpress are dealers in a market in which they may be strangers. The first effect of this strangeness is too much boldness, the second is too much timidity. The advertiser whose first overtures were slangy and

undignified, in the endeavour not to repeat the error, very easily wraps himself in stodgy pomposity.

The artist and the author are all their lives striving to do a very difficult thing: to draw exceedingly near to people's interest without rudeness or familiarity—but they want to draw near. Their problem is precisely the advertiser's problem, only authors have a quicker means of knowing if they are solving it than advertisers, for their popularity with editors, publishers, and the public quickly shows them.

The advertiser who begins by being frivolous, and ends by being frigidly sedate, may be just as unfortunate in one phase as in the other. But in the second the fact of failure is not so apparent. It simply works out in his spending a good deal more money than he need spend and in not getting the full benefit.

The Publicity Department.

Advertising should always be an outward expression of the real truth about the firm or the article that it advertises, and the publicity department should be, as far as it is possible, a real department of the business, in close touch with all other departments, and not only being influenced by them, but having its effect upon their operations.

Only thus can there be the harmony of outward publication with inward efficiency that makes publicity pay.

This need not mean, of course, that the picture-painter and the lay-out man are to have a roving commission with powers to correct the chief accountant's figures, or that the foreman packer is to touch up the copy for the press, but all parts should be expressive of, and supplementary to, each other.

This spirit can be observed even though the advertising be done through a specialist firm of advisers or agents and right away from the business. But to do it, it is desirable that the man who actually shapes the public address, whether by picture or printed words, shall feel the atmosphere of the business, and be impregnated with a sense of its life.

There is a very important part of advertising in which, at first sight, this might not seem to be necessary. That is the creation of demand; the other very important part being to show that this particular house or article satisfies a great public need. It might seem at first sight that the man who sets out to arouse appetites and stir the longings, can proceed on very detached lines. He certainly has wide boundaries in which to work. He can use all the globe, and the constellations beyond it, to point his moral if he wills, and there is nothing in art or nature, in imagination, literature, or fancy that his mind may not chain to his purpose.

But he is not out to create demand generally and set up an indefinite longing for all sorts of things. He must be leading the public mind all the time to one definite exclusive end. He has to create a draught that draws from one specific direction—possibly one small never-varying package, in a constant stream, from one particular factory.

The essence and atmosphere at least of that package, if not of the business itself, must be suggested in every word he writes.

It is this harmony between the public appeal and the article that explains the great success of some advertisers. The man who makes you want the article, precisely satisfies that hunger when you purchase the goods, and thenceforward it is impossible for you to look upon a renewal of the public appeal without feeling a sense of satisfaction in the purchase, or, still better, without the hunger for more assailing you with increased intensity.

The men who make publicity a special study are increasingly alive to the necessity for this unbroken continuity along the whole line between original source and final market.

Time was when the published matter could be made up from a few old price lists and an outside photograph of the works. Nowadays, at the bidding of the astute publicity man, the seller is almost commanded to wear his heart upon his sleeve, and make the whole world free of his real intentions and ambition.

CHAPTER IV

ADVERTISING AGENTS AND EXPERTS

BEFORE dealing with advertising generally, a little space should be given to the very natural question of the beginner at advertising: "Shall I attend to this work myself, or shall I employ an agent?"

Almost as soon as his first advertisement appears, or even as soon as a trader starts in business, he is offered the assistance of the professional agent. He is assured, again and again, that the specialist who has made a life study of advertising can do far better for him than he can possibly hope to do for himself.

His chief difficulty as a beginner will be in selecting the right agent to act for him. Almost certainly at a fairly early date he will be wise to employ one, at all events for newspaper and possibly for poster work. The agent can be a very useful ally, and as he receives his payment in the form of commission from the newspapers (commission which is only available for the agent, and would not, in any case, be given direct to the client), his advice and assistance are often no charge whatever to the advertiser.

Agents, however, are of many kinds, and herein lies the difficulty of the beginner. He cannot, without careful enquiry or experimenting, be sure of finding one who will be of real service to him. It is no charge against a useful and highly-skilled profession, to state that the bad agent, who may be a real danger to a man, is often more eager for clients than the good one.

We will now explain the different kinds of agents and also refer to the men who pass as such.

The Agent who does Big Business.

There is the prince of the profession. The man who is trusted by firms of world repute with the outlay of huge sums of money. These men have frequently suites of offices in which are employed many professional men, artists, writers, and specialists in "lay-out." Some of these agents will not work for a house unless they are given considerable powers and latitude, as they are quite capable of carrying through a complete campaign involving a very large sum of money, entirely on their own initiative.

Where a very wealthy firm, which does not possess publicity ability among its own members, is contemplating the outlay of substantial sums as part of a continuous policy, it is often the wisest course to adopt, to entrust the outlay to such an agent.

Care should be taken, of course, that the right man is chosen for the purpose, but the difficulty of doing this is not as great in the case of a big campaign as in the case of a small one, for it is easy to learn the records of men thus prominently before the commercial world, and every well-known house for which they have acted, over a series of years, is a kind of guarantee in itself.

That "series of years" is rather important, as there is a great deal of difference between being entrusted with the continuous work of a great house and doing some one special task for them as a test. Some people can get good clients, and fail to keep them; while others give such splendid service that no inducement can take their clients away.

The Small Trader's Point of View.

On the whole, it is doubtful if the small beginner is wise to bring his business to a man who acts for very large firms, especially when he is intending to spend a very limited sum to begin. The second-best of a good house is frequently costly to pay for and not of great value. With the best intentions in the world, the genius of a great agency is forced to give his fullest thoughts to the most important of his clients, and it is almost unreasonable for the man spending but a small sum to expect to receive much more than such routine attention as a well-organized office can offer.

There may be a danger, too, in getting into an

atmosphere in which thousands of pounds are discussed as if they were trivial sums. For the man with small reserves may lose his sense of proportion and be induced to act with rather more boldness than his case really warrants.

Publicity men are great enthusiasts and they have a knack of carrying a listener on with them. Publicity is such a vital point of their creed that they cannot always see commercial problems with the eyes of the small trader.

Agents for Smaller Advertisers.

The next kind of agent to consider is the man who lays himself out to work for the smaller advertiser. In many cases he can be a really useful ally to the business man who is beginning to advertise. His knowledge of the best media for the different kinds of publicity and the best methods of approaching special classes of buyers is acquired by years of experience, and is exceedingly valuable knowledge.

Even here, however, the beginner is wise to err on the side of caution in the way he lets himself be influenced to spend money too rapidly. This does not mean that he must be timid or niggardly on principle, but that he shall let circumstances wait on judgment. Instances have occurred before now in which a man has found that he has an exceedingly good proposition for the public, and buyers have responded to his overtures in an admirable manner, and then, through a mistaken sense of caution, he has refused to let the full flood of success carry him along, while opponents, noting his methods and success have rushed in and gained the harvest that should have been his. Caution in all things, but courage when events warrant it.

Big Ideas.

The third kind of agent we have to consider is the man who possibly means well, but has more enterprise than judgment. This man wants you to do extraordinary things, dazzling things, things out of all proportion to your business and your means. The front page of *The Rocket* for one issue will take all the money you can appropriate for the year for every purpose. But he insists that it is your best investment. Of course, it is a splendid investment for the firm able to back it up with other bold publicity, and with an appeal to all kinds and conditions of people. But it so happens that you are the manufacturer of a patent shuttle shaft only of interest to the weavers of Lancashire and Yorkshire, and if they don't happen to see that particular day's issue of *The Rocket* they will have no way of hearing of you, for you will have nothing left to pay the cost of stating your case through the trade papers or by post.

Or this eager being has other flights of fancy. He looks benignantly at the little drapery shop

you have opened and scouts the idea of the local press.

"Local papers? Absurd!" he says. "Send a District Messenger first class to the burgomaster of Berlin stating you have just opened, and publish his reply. All the world will talk about you and you will be crowded out."

But, alas, the Burgomaster doesn't reply, or if he does, the press ignore him, regarding the adventure as an advertisement, and declining to note such an incident unless backed by a long series of 9 in. double-column advertisements in their own papers. Newspapers are not always hospitable to schemes on which the money is spent elsewhere.

This kind of agent doesn't really do much trade at all. But he is just the sort of man who is anxious to do trade, and he is quite likely to be the first professional man, in this line, who offers you his services. This freak advertiser is often a very clever man, and when he has sobered a bit, he may do excellent work, but woe betide the luckless ones on whom he experiments.

The Agent-Investor.

Then there is the agent who is not out to do general business so much as he is to invest in advertising space. This man is a bit of a capitalist, who buys up the whole of the space that some small organs have to offer. His interest, of course, is to sell that space at a profit, so you should regard him more as a canvasser seeking your advertisements than as an agent suitable to work for you. His business is quite proper and straightforward, but his interest in what he has himself to offer makes his service rather too confusing to the beginner to have much to do with.

The Undesirable Agent.

Bona-fide agents are probably the chief sufferers from the depredations of the publicity man of undesirable methods. This kind of man can scarcely hurt the experienced advertiser, who is quite aware of all his methods and will not trust himself to him. The bad agent trades upon the stranger, and he loves to have a free hand. His object, when he is spending a hundred pounds for a client, is to arrange so that a good share of that hundred pounds shall filter back into his own pocket. There are ways in which this can be done, dubious and crooked ways, connected with secret commissions, with second-rate papers of accommodating character, with printing accounts that do not disclose all the profits they contain, and with fees for writers and artists that the poor writers and artists never handle.

Taken as a whole, advertising agents and experts offer a very efficient and useful service to the trader, and it requires but little knowledge of advertising to appreciate the fact. It is a pity

that they are unable to protect advertisers from the acts of those who claim to carry on the same kind of work, but do not render as reliable a service.

A Suggested Organization.

This is not the fault of the profession. Remedies have often been suggested, and it is the sincere wish of many agents to form some kind of organization or close corporation in order to give clients a guarantee of reliability. But it will be seen that such a plan is practically impossible in an occupation which depends so largely upon originality and a break-away from conventional lines. Accountants deal with rigid rules of arithmetic, lawyers with Acts of Parliaments and precedents, doctors with exact medical science. These and many other occupations are capable of rules in etiquette. But the spirit of Publicity is Freedom, and Freedom could not live in a close corporation.

To form an exclusive body would inflict hardship upon new men with new ideas. It might exclude some most excellent agents—it would certainly be just the fold an adventurer would strive to enter. Close boundaries here would be in restraint of trade and contrary to the best British commercial traditions.

Choosing an Agent.

The beginner at advertising in a small way is forced to make his own judgment the continual court of appeal in practically every act that is performed. An outlay which, in the profession, might be regarded as too trivial to worry much about, may represent a very vital part of his capital; and the comparative success or failure of each essay in publicity may need to be reviewed with the whole figures and outlook of the business in mind.

These early days of advertising may be the days for testing and finding out the best men as well as the best methods. It has been during such periods that some advertisers have discovered the real value of a skilled professional helper and adviser. But such are not the days when a trader can afford to take a single step in the dark: at this beginning point he must have everything explained to him, and, if need be, must explain himself and his position to his adviser.

Later will come the time when, having found a real ally, he can be rather bolder in trusting him. An advertising agent of proved reliability is more like a partner than an employee or an outside adviser. Like a partner, he should be examined and tested before he is admitted into the place of full trust and confidence; but like a partner, once his powers and interest are fully recognized, he should be given reasonable scope to do his best.

CHAPTER V

ADVERTISING AND THE RETAIL BUSINESS

EVERY advertisement has two results: the immediate and the deferred, and this fact makes it very difficult for an advertiser to estimate the complete effect of a publicity campaign, unless he can see the full consequences over a long period of time. It is the constant repetition of a statement that finally impresses that statement upon the mind of the public; it is the series of acts over many years that at last builds up a valuable goodwill.

The retail advertiser has usually an advantage over the wholesaler and the manufacturer, in that he can nearly always obtain a swift immediate result from his direct advertisements. A retail trader may begin to advertise with less risk of loss than others, and with greater prospect of quick return.

He can expect this advantage, because direct advertising in his case enables him to reap some of the advantages of all the indirect advertising he has already done.

His newspaper and poster appeals remind the readers of facts already well known. Locked up in their minds is the hazy impression that Mr. Timms, of London Street, sells neckties, velour hats, and gentlemen's hosiery. The statement that the hats are reduced, for the summer sale, from 17s. 6d. to 13s. 6d., may be the first intimation that hats could be obtained at that shop at such a satisfactory price; but subconsciously those hats have already been advertised, because Mr. Timms has been paying £200 a year rent in London Street, when he could have had quite as large a shop, with more modern fittings, in the new suburb at Town End Avenue, or in the side street near the brick-works at half the sum.

The trader occupying a shop in a good position is already an advertiser before a line of his publicity matter appears in print. A part of the extra rent he has paid for a good stand is really an advertising charge.

Because of this outlay, and the advantages it brings him, he can reasonably expect a quicker result from direct appeals in the press.

Special Lines.

In consequence, it is usually better policy for him to draw the attention of the public to special lines that he is offering at the moment, than to re-state the already known fact that he has a drapery shop. He loses nothing by imparting urgency to his message and by implying that those who come late may miss the best bargains.

This is the dominant note of the majority of retail advertisements, especially those that have their chief appeal to women.

It is reasonable that a trader who advertises in this way should expect a return that follows fairly promptly upon outlay. But even here the advertiser expects that some part of his profits will be delayed. A lady may see a firm's advertisement for a year, and read all about the wonders of the bargain basement, and be deeply intrigued by the continual offers of new Paris models, before she finally musters courage or finds the time to cross the threshold of that hospitable trading establishment. All this time the continual assaults of well-arranged quarter pages in the local press may have been undermining her resistance and fascinating her understanding.

Her purchase is perhaps only an eighteen months delayed return for the advertisers. But her son, who is now 19 and who will get married at 24, is subconsciously noting facts about the furniture department that will ultimately result in £230 being spent in one grand orgie of furnishing, six years after the picture of the first dining-room suite was displayed on the back page of the newspaper.

The shop window, and the newspaper front page, advertise the whole stock by displaying a selection. They also create a future goodwill by a continual insistence upon the value of the current day's bargains.

The owner of a general business, who wants to be known for *all* his goods, usually finds that his object is best attained by concentrating the mind, point after point and day after day, upon special articles.

It is often immaterial whether people come to buy those special articles or something else. The object is to induce them to come and buy.

The Objects in View.

The retail advertiser has two objects in view in each advertisement. His first one may immediately concern the articles to which he is calling attention. But behind this purpose he is building a name and reputation for the future.

This is why a retailer can afford to lose on a single transaction. It may seem an act of folly, when there are only £20 worth of the special blankets in stock, for space to be booked that will cost more than £20, but the retailer will not look at it this way. Those blankets may be the best bargain of the day, and a large number of possible buyers may be disappointed in being too late for them. But the main object has been achieved if it helps to draw a large number of people to the shop.

The value of the shop window is often to get people to enter the shop. Many who are thus attracted may buy nothing that has been displayed in the window, but careful window dressing has none the less achieved its object. The advertisement acts in the same way, and that address

is none the less valuable that it may call people to the shop long after it appears.

The retailer's advertising being an extension of the window into the actual home of the paper reader, it is right that this form of address should

in many cases, and it has the argument to support it that the larger the number of appeals, the greater the number of people to whom it has an application. Experience alone can tell a trader what shall be his policy in this respect.



Photo lent by

Messrs. Frederick Sage & Co., Ltd.

Quiet dignity of design and excellence of workmanship are distinctive features of the entrance to this up-to-date establishment

partake of some of the characteristics of the window.

The actual dress cannot appear, nor can the chest of drawers or the dining room suite. But the gifts of the artist can be used to do next best. That is, to present as good a picture of the article as possible, so that the eye shall be helped in calculating values against prices.

Crowded Advertisements.

To the writer's mind, some advertisements suffer from the same fault as some shop windows: that is to say, they are too crowded and the thoughts are scattered over too many subjects at the same time. The habit is not to be condemned, however, for it seems specially successful

CHAPTER VI

ADVERTISING IN THE WHOLESALE AND MANUFACTURING BUSINESS

THE man who is engaged in a wholesale or manufacturing business is unable to consider the subject of advertising in quite as simple a manner as the retail trader can. Almost any public overture of a shopkeeper will result in immediate attention being drawn to his shop. This is the natural centre of his business, and he will not go very far adrift as long as he keeps giving a general impression that his shop is the right place to trade.

But the wholesale trader, whether he manufactures goods himself or only handles those of other people, is up against problems of policy all

the time, and cannot take a single step without considering in what way he intends it to affect all his future trading.

The Middleman.

In reality, there are two kinds of advertising for him. He reaches the ultimate buyers through middlemen. The object of advertisement is the creation of goodwill: he can create that goodwill among the middlemen, or he can go beyond them and create it among the general public.

Advertising to the middleman is done by large numbers of business houses of whom the general public have little or no knowledge. It is usually carried out as part of a salesmanship method in which the commercial traveller takes an important place.

Trade Papers.

There are in the country a great number of trade papers which enjoy good circulations among the traders in the particular lines dealt in, and the advertisement in the trade paper is a great assistance to the traveller, as well as an incentive to new business in places where there may be no representative calling.

The advertisement to the trade is somewhat different from that of the public appeal. It is commercial in character, largely untouched by what some would call emotional characteristics. It is a business argument stated to business men, and it deals with the commercial advantages of the trader dealing with the advertiser.

It performs the double task of stating the commercial traveller's main proposition, and of introducing the traveller himself.

Trade journals as a rule have the very great advantage that the publicity columns are often the most carefully read parts of the paper. The circulation is among buyers who are financially interested in mastering their contents.

"It will pay you to sell our goods" is the burden of this form of advertising. At first sight it would seem that the writer of highly imaginative and psychological stuff must be seriously handicapped in attempting this kind of address, and that the more bluntly straightforward the appeal the greater the likelihood of its being useful. But none the less, there are opportunities for some of the human nature touches that are becoming so popular in appeals to the mind of the general public.

A retail trader has ideals, and he is inclined to be dissatisfied with the argument that relates only to profits. Many a shopkeeper will avoid even profitable selling goods, if they seem to him to lower the tone and dignity of his business. Equally, he will handle some lines, on exceedingly narrow margins, if he is satisfied that the net effect is to create a favourable impression with his customers.

We have heard of the grocer who would on no

account sell any other kind of cheese than Cheddar, because he suspected that all others had too strong a flavour for a family grocery trade. Also we know the grocer who keeps roasting coffee, because the aroma has a stimulating effect on customers who have just started to buy. One may have lost custom for cheese, and the other have been out of pocket on coffee. The psychological argument, however, triumphed over the financial.

The advertiser in a trade paper should be conscious, equally with the commercial traveller, that the retail buyer is a man who can be reached and convinced by arguments that seem to be partly sentimental. It is not the chief way of approach, but it is certainly a way worth considering.

The reader of trade paper advertisements has a scrutinizing mind. Hence, it is not necessary to throw great chunks of matter at him. In looking through the columns, it is doubtful if he will be much influenced by the amount of space occupied. A fact may seem to him quite as impressive if told in 1 in. as in 20. Probably he will pause about an equal space of time over each advertisement, no matter what the space may be. The two pages taken by one firm to advertise one fact in inch-square block letters, he sees while turning the leaves, but the next two pages packed with a number of 1, 2, and 3 in. overtures may hold his close attention for 10 or 15 minutes. This does not mean that small advertisements are better than big ones, but that in writing for interested readers, one can sometimes effect economies in the use of costly space, and that the necessity for gaining attention at all, which is obvious in ordinary newspaper publicity, is largely dispensed with.

Postal Advertising.

Advertising to the trade offers many opportunities for using other methods of publicity than the press. The middlemen in some trades are so limited in number that it pays to address them directly through the post. Increasingly, the letter and circular are being found useful methods of reaching the limited scattered audience, in spite of the present high postal rates.

It is a little more difficult to gauge the consequences of postal advertising now than it was at one time, owing to the increased reluctance of business people to reply to communications in which they are not interested at the moment. There is growing up, however, a habit of filing such correspondence for reference, and many firms who advertise through the letter box, have recently found that though the immediate response of postal advertising is smaller, the postponed results are better than they used to be.

This is inconvenient for houses that use the post as a means of getting the names of interested

buyers, whom they follow up till they may carry off business; but in spite of the apparent lessened attention, such documents seem to receive, the post is still an excellent medium for advertising to a limited and scattered number of middlemen.

CHAPTER VII

THE BRAND OR TRADE-MARK

THE dream of many traders seems to be the creation of a brand or trade-mark. It promises the most assured and continuous success, making the possessor so absolutely master of his business that, once he is securely entrenched, little short of a revolution can threaten his prosperity.

Many of the great fortunes of trade have been built up around a brand. The general public are well aware of the fact, but it is not burnt into their imagination with hot irons, as it is into the imagination of the trader.

At some time or other the man in business, whether as a learner, an employee, or in his own concern, has come up against the brand as a competitor, and he has experienced, in a rather painful manner, what odds he is fighting.

Travelling, he may have heard at shop after shop, "We only sell enough of that stuff to buy from one firm—and we *must* stock Reckbury's."

Travelling, he may have heard his employer say, "These branded goods don't pay, my boy. Give them a rest and push in the other lines a bit," and has found the request difficult to obey.

Or, as a retailer, he has calculated his profit on some line in popular demand, and rather ruefully compared the percentage with his trading account averages, grumbling the while; "I see! They advertise and make the public buy and we do their work for nothing. Then they buy yachts and country mansions."

If, in his indignation, he has tried to push his own line and found the hardness of the task, he has realized the power of the brand.

Substitution.

Here, the author of this section seizes the opportunity to protest against the rather careless use of the phrase "substituting another article" that has been used rather freely. There is very little "substituting" in business, as retail traders are usually quite frank in stating descriptions.

When a manufacturer by means of publicity tries to force a whole trade to stock and supply his goods at a loss to themselves, it is not only their right, but their duty to put the whole machinery of their business in motion to defeat his plan. It should be done tactfully but relentlessly. Care should be taken that in quality and price he should be matched. If possible, a better

article should be supplied at a lower price, and even a small loss incurred to do it. The facts should be stated wherever possible, and the co-operation of fellow tradesmen sought.

Fortunately, advertisers and the owners of brands are too wise, as a rule, to ignore the distributors' right to a living wage, but in the present state of trade and the rather Napoleonic ideas that some folk are forming of the rights and powers of advertisers, there is no knowing how soon the retailers will need to stand for their right to live.

The Power of the Brand.

The business man knows the power of the brand when he is fighting it. He also knows its power when he uses it as a friendly ally.

A leading wholesale grocer recently stated as a reason for his success, that he had "ridden into prosperity on the back of other men's trade-marks."

"I pushed branded goods, and never cared if they paid me or not," he said. "I made my warehouse the local store for any freak article that was boomed for three months, and which traders were afraid to buy direct because of the risk of being left with three-quarters of the £10 parcel on their hands. They could get a single packet from me.

"I stocked all the best brands, my printed matter was drafted so as to infer that I was the local ally of the biggest men in trade, and thus I got the reflected glory of their fame. My premises were resplendent with their names and show cards.

"And I got the unbranded business behind it! After all, that was what I wanted! When one can take advantage of a running tide, and it is a good strong tide, it does help along."

All the commercial world is alive to the value of possessing a proprietary article. Everyone sees it in terms of bounding trade, of assured stability, of personal wealth, and of birthday honours.

The Wholesaler and Manufacturer.

The wholesale or manufacturing trader is often greatly attracted by the brand. Conducting a business under the usual difficulties, he is probably most impressed with its value as a lever for trade. He reasons that if his travellers carry one line which people *must* have, and which they can get nowhere else, it will follow that his other lines will share in the benefit.

It is a curious fact that people already doing business nearly always reason in this way about a special advertised article. Such is to them not so much a commodity, to stand or fall on its own merits, as a special assistance to the rest of the business.

The believer in advertising who is not already in trade, and who draws mental pictures of the powers of publicity, nearly always sees the special advertised article as something detached and

separate which need not be at all confused with other articles or other interests.

Of the two, the business man's reasoning seems to be the saner. After all, a new proprietary article brought out by people who, if in business are not necessarily in the business connected with the article, is really a financial gamble. From the start it is handicapped by not being attached to a ready-made organization, and the necessity for a

first years of work. It may be that the demand for the article he is advertising will be very small at first, the whole turnover perhaps not amounting to the money he is spending in publicity. But if it enables him to open new accounts and to increase his ordinary trade with his old customers, he may be able to recoup himself for this outlay as he goes along.

The final development of the specially advertised



Photo

Kealeys, Ltd.

THE GENERAL OFFICE OF GENATOSAN, LTD.

complete system of manufacture and distribution being specially set up, whether the trade is little or big.

The Brand's Necessary Backing.

A man already manufacturing a number of articles, in which his trade is already a going concern, makes up his mind to select one of the lines and advertise it to the public.

He has already a whole machinery for doing trade in at least one part of the country, prepared to give the needed support of an existent business, and, what may be far more important, he is able to take advantage of any new public demand, not only in the sale of the article advertised, but in a general trade behind it.

This is a very great advantage, especially in the

line may be that it becomes the chief part of the turnover, and the general business behind it may shrink or be disposed of, as being too local and too confusing to work side by side with a concern that has become almost international. But the value of the backing in the first place cannot be too highly esteemed.

Readers can doubtless remember several instances of where heroic attempts were made, by sheer weight of publicity, to build up the fame of a proprietary article. Some of these names no longer appear in the press, for the efforts failed. Nearly always these were brand-new enterprises without the backing of a trade of some kind to give them the assistance of a constant existent sale, however small. Some such detached adventures have succeeded. These

were usually, however, the enterprises of men already in business, who were able by their own demand, or by using the machinery of their own business concerns, to give the new venture a good send-off.

Were we to examine the brands that are now in great popularity and to read the history of their initiation, we would find that a surprising number have come out of business concerns that dealt in many articles. Many of the great factories of the country can be traced back to retail shops, others to wholesale stores.

It is easy for us to sweep aside this kind of history and assure ourselves that the world is living at a more rapid rate nowadays, and that the methods of the past have no value and are no criterion.

In such an intention as the building of a brand, there is probably more need than ever there was, for the backing and support of an existent business. The method of the past will probably be repeated again and again, for the man who has made his business pay without advertising is, of all men, the most likely man to make it pay when he does advertise; or, at all events, to proceed along the lines of publicity in that sane and healthy way that will make him drop a hopeless venture, or, having hit upon one that is sound, pursue it to its fullest advantage.

The New Theory of the Brand.

Every form of trading has a theory. Business men do not trouble about theories as a rule, but none the less they work upon them.

Here are two very popular theories—

1. There is a demand for certain goods. I will get hold of the goods and supply that demand.
2. Here are certain goods to be sold. There must be a market for them somewhere or other. I will find that market and make a profit by selling those goods.

Now, these two theories deal with the two ends of business. Nearly always a man in trade inclines to one end or the other. He may be a perfectly all-round man, keeping his eye on all parts of the business, but pretty certainly his absorbing interest is in one place.

"I make jam," he thinks. "There are people who can buy my jam. I will find those people."

Or—

"There are 600 houses round here, most of which contain one, two, or more people who are capable of riding bicycles. I will get hold of the kinds of bicycles they can afford to buy. Those people get their machines punctured and are too lazy or too busy to mend them. I will make puncture-mending a feature."

Nearly everyone in trade, however much he may make some part of the long line of supply and demand his own particular centre of interest, knows that it would be a great advantage to him

if he could be master, simultaneously, of more than one point. He is constantly experiencing irritation in the fact that he is able to supply demands that he cannot influence, or that the demand he caters for can be equally well satisfied elsewhere.

But all sound theories of trade hold good notwithstanding. The man who sets out to manufacture for a demand, to organize economic methods of obtaining and distributing goods, or to form central stores for traders in suitable districts (to be, in other words, a manufacturer, a retailer, or a wholesaler), is setting out to fill a useful place in the world's work. This attitude of service has gathered the bulk of business so far, and probably will continue to do so throughout the history of humanity.

During the present era, however, we are seeing a new theory of trading in operation, startling in its boldness, and threatening some of the older methods because of its amazing success and its dazzling possibilities.

It may be spoken of as "the new theory of the brand."

The old theory of the brand was that if a trader always did up a package in a particular way, and made sure that it contained goods of an unvarying quality, and marked it with a distinguishing mark, so that it could be remembered, continuity of sale should result and goodwill be established.

Control of Supply and Demand.

The new theory includes all this. But it makes a higher bid for success. Stated plainly, it means that the trader shall control both ends of his proposition at the same time; that not only shall he be master of that part of his business that deals with supply, but that his voice shall be the loudest and most insistent voice in those places where demand is formed.

Control of the two ends carries with it control of everything between the two ends.

This is what some people understand as the chief object of advertisement. It is to them not an isolated separate thing, but is the principal manifestation of a complete, well organized series of operations which form one complete line, right away from the raw material to the finished product delivered to the ultimate buyer.

An Example.

Thus, a manufacturer of numbers of table commodities does a fairly good business in the counties surrounding his factory. Originally, he was a baker and confectioner, and he still keeps the retail shop. His new partner is experienced in all the arts of publicity, and, having found the capital to re-model the factory in preparation for a bounding trade, begins to set to work to get ready for his great campaign.

One article, out of the many manufactured, is selected, and after various experiments it is at



By permission

A SECTION OF A VERY LARGE OFFICE
(Messrs. Furness, Withy & Co. Ltd.), lighted by G.E.C. Equipment

The General Electric Co., Ltd.

last made ready for the market. Size, price, and quality are agreed upon. On all the internal preparations for doing business, it is not necessary to dwell here.

Arrangements being completed, as regards the supply of the goods, the campaign for the creation of demand is commenced.

The idea is to make people desire the precise goods which you are prepared to supply. It has been decided that the article shall be "Cream Jelly." The price is 4½d. to the general public.

Quietly and gently perhaps at first, but with gradually growing insistence and vigour, the public mind is trained to long for this article of sweet succulence. The effort may begin by being localized to the regions near the factory, or publicity efforts may be kept in check by the capital account, or a proper spirit of caution, or by the business-like desire to let each year's trade justify its own increase in expenditure.

But throughout the campaign, the principle in operation is that a draught of demand shall be caused of such force that it shall draw the goods from the factory, in an endless stream, that will make all intermediate operations easy and economical.

The creation of this demand is the chief study in this part of the work. The public mind is to be tempted with pictures, the public reason is to be convinced with arguments. By means of every psychological method that ingenuity can contrive, the longing of man is to be made insistent and his voice untrifling in the call for "Cream Jelly."

If this can be accomplished, the trader has complete control of both ends of his business. He must organize the middle parts with care and discrimination, and, if this be done, all the middle parts are in his hands.

Building Up the Trade.

For instance, he is largely master of the retail distribution of his goods. Having found out the reasonable profit that the retailer needs for handling them, he can fix that profit and can, more or less, determine the conditions he shall impose upon the retailer. His traveller calling at the shop need not wheedle and coax and beg for business, he need not even present strong arguments as to why the goods should be stocked, for the draught of public demand assists the traveller in his work and enables him to put his energies to devising means whereby that demand may be used to its fullest advantage.

In his factory, the advertiser has the advantage that a regular demand can give in enabling him to estimate his requirements and to plan for economic methods of manufacture. As long as the advertised speciality is only regarded as a lever to open up business for other lines, he must keep his sample departments and his experimenting department going, but the moment he decides that the

advertised line is a line that can be worked entirely upon its own merits, his factory can be simplified.

With increasing demand, arising from a developed publicity campaign, he can carry his control further back than the trader usually does: he can even control the factories for the manufacture of the raw materials which he uses. He can be the owner of plantations and mines.

There are some wonderful firms in existence, which illustrate the power of organization, backed by skilful publicity, to control every portion of their interests in field, factory, store, and shop.

It is invidious, in a work of this kind, to mention names. But let the reader think of certain brands of cocoa, meat extract, cotton, tobacco, and other goods, and he will begin to name some firms which regard the distant plantation on one hand and the human mind on the other as parts of their sphere of influence. They hold it to be one part of their business to create a longing for their goods and another part to control the very sources from which they draw the material they use.

The Limit of the Brand.

The subject of the theory of the brand would be incomplete in its relation to the business of the present and of the near future, without a recognition of the fact that just as diseases often bring their own remedies, so a new method of trade, unless it is of universal application, causes its own breakdown after it reaches a certain point.

The question that the trader may have to face in the near future is whether the advertiser will be quite as fortunate as he has been in the past. The first advertiser in any line gets a benefit, because he is doing something unusual. When everyone is doing the same thing he loses that advantage.

Let us take a case.

Jones begins to advertise his Nut-Caramels. These dainties have never been advertised before. The public, in buying them, begins to ask for Jones's.

Then Smith advertises his brand, and Jones and Smith share the bulk of the trade.

Then Brown and Robinson chime in and get their share. The trade in Nut-Caramels increases because advertising, up to a point, enlarges demand, and this increase stands the two new competitors.

But by this time Harvey & Wilkins and Blake & Petershire are booking space in newspapers and interviewing publicity agents, and by this time the public are beginning to say: "It doesn't matter whose name is on the packet. All Nut-Caramels seem pretty good."

And a little later shopkeepers begin to find that they cannot stock all the brands of advertised Nut-Caramels, as their trade doesn't warrant such a variety.

Opposing Advertisements.

It is only another step for them to discover that opposing advertisements, beyond a certain point, destroy each other, and an unadvertised article can be as easily sold as any other.

It is a singular fact in this age of advertisements that there have come into existence great businesses of retailers who, point-blank, make a sweep of all brands but their own. The time may come when the retailer, who boldly adopts the same course, may stand as good a chance as his neighbour in trade, who is struggling to supply a hundred different advertised articles, every one of which he thinks himself obliged to stock.

The boast of the advertiser is that he can create demand by forcing the mind to desire a certain article. Supposing it is so, then 10 opposing advertisers can force it to desire 10 competing articles, and 100, and 100,000. Beyond a certain point the possibility is unthinkable!

While three brands of mustard are advertised on every hoarding and in every paper, the proprietors of those three brands will divide the mustard trade and practically drive out all competition. But let 30 or 300 firms secure the same publicity, and there is no brand at all, and an unadvertised mustard will stand as good a chance as any other. It is perfectly true that the gross sale of mustard would increase, for when many firms advertise larger attention is drawn to the article, but in the aggregate effect the value of the individual brand would be lost.

That time, however, is not yet. During the near future, it is almost certain that the power of the advertiser will increase. At all times his arts, his methods, and his endeavours will be well worth the study of the trader.

But there is never the occasion for the business man to regard advertising as an absolute essential of trade. If advertising is adopted, it should be taken up as part of a well-conceived business scheme, and never as a kind of necessary refuge of despair.

CHAPTER VIII

PSYCHOLOGY IN ADVERTISING

"We never leave anything to the reader's imagination," said an editor. "Our readers haven't got any imagination, or if they have, it makes them imagine the wrong things."

Many advertisers are of the same opinion, and take endless pains to make their publicity matter exceedingly clear. If there is any error in taking this line, it is an error on the right side, for vague, indefinite matter is a mistake.

But all the same, this editor's judgment was not strictly true. The public has a great deal of imagination, and this can be a very useful ally to

the advertiser. There is, however, much difference between baffling the imagination and stimulating the imagination; between the vague statement that may mean anything, and the clear statement, possibly complete in itself, that induces the mind to operate of its own account in a way in which the publicity gets still further benefit.

The great endeavour of modern advertising is to take full advantage of all that the human mind will do for itself. In this kind of work some people are exceedingly gifted, seeming to know the precise point at which they shall let the picture, or the sentence, begin its mission of suggestion, and commence the teaching that would lose its main strength or, even worse, arouse opposition, were it elaborated.

"Two-Word" Advertisements.

To illustrate, let us take one of the most popular forms of publicity, used very largely by some of the most famous firms in the land. This is the "two-word" advertisement.

We all learned at school that no sentence is complete without a verb. This rule is swept aside here, and the "two-word" statement has never lost its popularity.

The two words are the name of the firm or brand, and the name of the article. Thus, "Tulley's Blankets," "Hawktree Hammers," "Buchanan's Pills." Many posters and hoardings bear testimony to the value that is attached to such incomplete sentences, while even those advertisements that add statements and arguments usually print the telling two words in bolder type than any other part of the appeal, so that they stand out, to the glancing eye, quite apart from the other matter.

The sentence is not really incomplete. It is a challenge to the human mind to supply what is necessary to make a well-rounded statement. The two words demand that the reader shall build up his own arguments and add his own knowledge. Just as the words "Higgins, Grocer and Italian Warehouseman," above a shop door suggest, first, that the eye shall have a glance at the window to see what sort of grocer and Italian warehouseman Mr. Higgins may be, and perhaps later tempt the man or woman with money to spend to investigate the quality of the goods he keeps; so the shout from the hoarding is to influence the passer-by into curiosity that shall grow into trade.

Are More Words Useful?

It might be reasoned that the two words would be greatly strengthened by the addition of three or four more, so as to form a complete statement, such as "Binks' Carpets are Perfection," or "Moore's Melodeons Make the Best Music." But it is doubtful if the addition is really valuable unless it is of a particularly intimate and modest character.

The "two-word" advertisement is the big overture, suitable for enormous posters, painted sides of buildings, flaring newspaper streamers, and sky signs; and the temptation when a virtue is claimed is to make the virtue as big as the sign. This superlative demand is not really good, for it arouses opposition and question, and, at the same time, cuts off the appeal from the other claims that the two simple words would make alone.

When we read "Jugg's Jam is the Best," flaring across a row of railway sheds, in yellow and black, we feel that it is a boastful, blatant shriek, an idea that grows on us as the train whirls us past many repetitions of the claim. But "Jugg's Jam" does not annoy us in this way. The two words, after being seen a dozen times, begin to set us asking "What about it?" One day when we are ordering groceries, the brain will say, "Jugg's Jam," and also "You have never tried it, you know," and, in consequence, a 2-lb. pot is ordered, perhaps to be re-ordered at intervals.

Association of Ideas.

Supposing, walking through a foggy night, near to a crowd yet separated from everyone more than 2 yards away, a scrap of conversation comes out of the mist—just two words: "Westminster Abbey." Will your mind let those words remain isolated? Almost certainly you will supply, not simply the missing adjective and verb, but sundry little scraps from the memory of incidents in which Westminster Abbey has figured in your own life's history, or your fancy will play around any number of historical, fantastic, architectural, theological ideas that are linked in some way or other with that famous building.

When a firm broadcasts its business card or repeats its office plate universally, it is performing an act that is entirely meaningless, unless the mind of the reader can be trusted to do its part. It does not expect, at the beginning of such a campaign, to gain quite such a result as would come from the repetition of two such familiar words as "Westminster Abbey" or "Cleopatra's Needle." The effort in the first place is rather to erect a monument than to appeal to it.

But behind the act lies the faith that the human mind does link monuments with ideas. It is a very sensible notion for Mr. Penworthy to hope that one day "The National Gallery," "London Bridge," "Penworthy's Pickles," and "Hyde Park Corner" will all represent outstanding facts, capable of being linked with any number of incidents and memories.

Such a man would feel that if his brief advertising matter must be always a completed sentence, that he will lose and not gain. "Penworthy's Pickles," as a phrase, gains a hundred aids from the mind. "Penworthy's Pickles are Pure" gains one advantage (of doubtful value) and largely loses the other ninety-nine.

Supposing a law compelled us, every time we mentioned Westminster Abbey, to tack on a certain formula of description such as, "Westminster Abbey, the National Valhalla," we should doubtless remember (and perhaps resent) that it is the burial place of heroes, but the thousand other ideas surrounding it would be damaged or crowded out.

Good Publicity.

Two-word advertising is good publicity. By claiming nothing it claims everything. Its brevity and frequent repetition give it lodgment in the mind, making it a monument in itself, and obtaining for it an authoritative position among the accepted facts of life.

This "two-word" publicity contains the chief element of all psychological advertising, though those who use it most may have no thought of linking such obvious acts with psychology.

(And here it may be noted that the best advertising, from a psychological point of view, is nearly always intensely simple. Its delayed or final consequences may occasionally be as involved as human nature, but complexity should not be the intention or the selected method.)

Psychology and the Advertiser.

The "two-word" advertisement is referred to here because it introduces the whole important subject of psychology in advertising.

This subject has recently been claiming the attention of publicity men all over the world, and the results of its examination are to be seen in the newspapers and hoardings.

The realization has grown up that the best advantages from money spent are obtained when the minds of the public can be induced to contribute to the appeal. This is why a bold, well-rounded claim may miss fire altogether and a simple question may bring great results.

The advertiser reasons in this way—

"The British public shall buy my goods. I cannot force them to do so; but by suggestion I can so play upon their minds that they will force themselves to buy them."

Impressing the Mind.

The simple act of the student of psychology in advertising is to impress the name of the article on the human mind and let the human mind do as it wills about the matter.

The more difficult act is to suggest distinct ideas about the article in such a way that the mind shall desire to purchase.

Even in performing the first of these acts there are ways in which the mind of the public may be induced to co-operate with that of the advertiser.

Thus: One firm advertises the phrase "Darley's Starch" on hoarding, shed, sky sign, and leader page. Its rival advertises "Dumley's Starch"

by publishing a little puzzle—a picture, for instance, of the Zoological Gardens, with the query: "How many creatures shown in this picture can walk, and how many can fly?"—or a similar brain tester.

The two overtures are really the same. They both publish the single phrase, though one, by a simple device, helps you to impress it on your own memory. There is nothing about the virtues of the starch or influencing you to use it. The idea is simply the erection of the monument in your memory.

Creating Desire.

The really psychological work is that which makes the special qualities of the mind desire the goods.

On a chilling, frosty day to see the brilliant picture of a cosy bedroom, with a luxuriant fire burning in the grate and an intimation that "Wimpole's Fleecy Blankets are warm and restful," is an inducement (with the thermometer anywhere near 32°) to rush into the nearest draper's shop and order Wimpole's recklessly.

The advertiser here has an eye to consequences. If he cannot rely on the weather being about zero when you see his picture, he may carry his teaching further by showing you a few icicles or a snowdrift through a window in the same illustration. He will not, if he is wise, show you a shivering person, in thin clothing, peering in from the cold garden at the warm interior, for that will make you feel too poor to buy blankets and you will decide to make the old ones do.

The advertiser who hopes to stir the mind of the reader into itself doing some part of the work which shall lead to sales, is engaged upon a rather more subtle and finely balanced task than the advertiser who merely relies upon presenting a strong case to the reason.

It is an easy task, if one has space enough, to prove that Doubleday's Blacking is good for the boots and preserves the leather, besides giving a gentlemanly appearance to the wearer, because the reader can accept or reject the argument and proof as a completed whole—but to make the reader feel in his bones that without Doubleday's Blacking his boots are disreputable and he himself an outcast, and consequently stir him into the resolute decision to buy a tin forthwith, is work of a higher order.

Simple Psychology.

It is important, when we use a word like "psychology" (which at present is being used in all sorts of ways), to chain it down as closely as we can to its simplest meaning in relation to the subject under review.

The "science of the mind," in advertising, can be limited to a very small compass, and we need

not go into those puzzling laws of probabilities that scientists like to discuss.

After all, the advertiser must be a psychologist, whether he uses the word or not, because he is only benefited when the mind he addresses becomes active. His problem is not nice hair-splitting on definitions, but how he can make the mind more actively desire his goods and more subconsciously accept them as the best of their kind.

He has materials to use. They are, generally, printers' ink, the writer's argument, the drawer's pencil, and the painter's brush. They may also be brass bands, captive balloons, wireless broadcasting, and cinema screens.

When he actually comes to the use of these things, is probably the best time for him to consider their value in achieving the active result in the minds of the public.

Each act of publication then becomes a subject for the enquiry: "Will the man who hears this argument be induced to buy?" or, "Will the effect of this picture be to help the reader to think more about my goods?" or, "Will this phrase annoy into opposition or stir into enquiry?"

Human Nature.

The study of psychology simply drives us back to the study of human nature in this work, and in most cases we defeat our own object by regarding the subject as more profound or mysterious. The best psychologist here is the one who can most accurately gauge the effect of separate actions while maintaining a continuous policy.

CHAPTER IX

LETTERPRESS AND PICTURES

"If you take and show that man the buoy at the Nore," said Captain Cuttle, "he'd give you an opinion that was no more like that buoy than your uncle's buttons are."

High praise this for the great Bunsby, whom Captain Cuttle regarded as one of the wisest of the earth. But Bunsby would have failed as a writer of advertisements, for all his wisdom, because in this art obscurity is at a discount.

The advertiser usually reaches his public through the means of words and pictures. Both of these are capable of being used very simply so as to convey a quick, clear message to almost any mind, but equally they are capable of leading to confusion and bewilderment, or, what is even worse, from an advertising point of view, of leading to no impression at all.

We will keep for a moment to the written part of an advertisement, and deal with pictures a little later.

Patterns of Writing.

There are two patterns for advertisement writing. One is the letter; the other is the telegram. The letter is a good pattern, the telegram is a bad one.

The notion that space is costly makes many people throw words together in awkward clumps, cutting out those useful prepositions and conjunctions that make all the difference between sound sense and absolute nonsense. There are some who can write a sensible sentence if it is part of a letter, but give them a telegraph form and they will write sheer rubbish. This isn't always to save the number of words; but because of a habit of mind that suggests a telegram should not be written in the same way as other documents.

No doubt the reason for this is the consciousness that each word costs so much money and full advantage should be taken of the outlay, but the effect is often that the meaning becomes obscure.

The knowledge that space in a newspaper or on a hoarding is expensive has the same effect upon some advertisers, and the endeavour is made to substitute a special language for that of ordinary writing.

Compact Writing.

The practised journalist or author is capable of packing a great deal into a very few words, but he never does it by playing tricks with the English language, or by trying to take such short cuts as leave out the small but necessary prepositions and conjunctions. He avoids abbreviations, scornful to use "gent." for gentleman, "prefs" for preference shares, and only very reluctantly referring to a member of Parliament as an "M.P." The discrimination of men accustomed to the pen honours the tradition that words that are worth printing are worth printing in full, and that a sentence in a book or newspaper lacks conviction unless it is grammatically complete.

This completeness of form is used by the most compact writers, because it is the most compact way of writing.

Number of Arguments.

Very often the advertiser is tempted to pack too many arguments into a small space. This is a risky proceeding and usually defeats its own end. The sentence, or series of sentences, that states several claims at once is rather like a half-a-dozen vehicles driven abreast down the same road. The human mind is not constituted for this kind of treatment, and does not respond to it. One argument at a time may gain acceptance or rejection; at all events claim some notice. But several only cause inattention.

It is a good rule of all advertising not to overstate your claim, and this applies as much to the number of arguments used as to anything else.

If the goods you offer possess many virtues, it is better to concentrate the attention upon one or two of the chief ones, or upon those points in which the goods are unusual.

A railway company that serves a number of seaside resorts is sometimes obliged in its public announcements to mention several of them in the same statement. But in that special kind of advertising which is aimed at attracting tourists and holiday makers the astute advertising manager of the line knows well that the best argument is the appeal in which only one idea at a time is presented. That idea may be a single town, as "Skegness is so Bracing," or a whole coast, as "The Cornish Riviera"; but there is usually, in all effective publicity, a careful adherence to one special point.

The coffee you put on the market will sell better when one virtue is claimed than when twenty are. For one virtue is an arresting idea, four is a mere definition—twenty is bombastic nonsense.

Reasonableness.

In the use of words, restraint is the strongest emphasis. The man who claims what is reasonable and moderate carries much more weight than the breathless mountebank screaming convulsive adjectives.

We all know the old story of the three tailors in the same thoroughfare. The first put up his new sign: "The Best Tailor in the Town." The second followed with a green and gold definition: "The Best Tailor in the World"; while the third (hard put to it, and a modest man) contented himself with "The Best Tailor in the Street."

Of course, all these advertisements were wrong, as raising oneself by putting down the other man is a costly and foolish policy; but even in this case the modest claim was the greatest claim.

Modesty.

The effect of modest language is to arouse confidence and sympathy. The world is out of patience with the screamer; perhaps more so just now than it has been for decades. We have passed through some terrible years, and on many points the whole people are finding out new aspects and changing some hitherto accepted notions. There are, however, some opinions and convictions that people do not let go, and these are nearly always the ones which, during the years of crisis, were expressed quietly or accepted without any expression at all.

There has grown up a feeling that the man who screams himself red in the face has an axe to grind somewhere; and this wave of opinion is making the public much more suspicious of inflated claims in the business world than ever it was.

The advertiser to-day is much more identified with his advertisement than he used to be. In

consequence, boastful language discounts the man and discounts his goods.

But while moderation of language is essential for good publicity, it does not follow that a justifiable claim should be made weaker than it really is. Advertising requires emphasis. If your goods excel in any way, it is your business as an advertiser to point out the excellence.

The writer saw three posters the other day, side by side, on a hoarding. Each one bore a name. It would not have mattered a little bit if those three names had been stripped off and pasted on in a different arrangement, for in each case the picture could as well have illustrated a tooth-paste, a blacking brush, a new kind of cotton wool, or a pair of rubber heels, as



Photo

Kealeys, Ltd.

OFFICE OF THE MANAGING DIRECTOR OF BRITISH HOME UTILITIES CO., LTD.

The point is that, in using words, moderation is the best way of being emphatic.

Pictures.

The artist is a great man in the world of advertising to-day. He has such a knack of telling the story in a flash, that he cannot be disregarded. A glance at the hoardings that abound in all cities is evidence of the value that is being placed upon his work, and anyone who contemplates advertising extensively should make a study of art as applied to commerce.

But the artist can be a terrible scatterer. He can take hold of a sympathetic interest and send it flying off to Mount Ararat or to the coronation of Queen Anne, or to early childhood; and the man who paid much for his pictures never sell any of the advertised goods on his account.

it illustrated the article it was supposed to advertise.

This is generous treatment of the public, but too philanthropic to be of value to the man who spends the money.

Risk of Losing.

But there is worse than this. The artist (unless he is carefully watched) will take your customers away and lose them. An advertiser has a poster mentioning marmalade. The name is seen a little way off, and a sympathetic and enterprising housekeeper draws near. She is prepared to increase her marmalade account as her household allowance permits of some luxuries. She is prepared to be won over by the advertiser.

But on nearer approach she finds that the picture shows her a view of a wondrous beach and

blue ocean. That it may be a Spanish orange plantation by the sea is not so obvious to her mind as its similarity to Bournemouth. It is clear to her that the marmalade account must be docked, for the money should be saved for Bournemouth.

The artist in advertising can easily scatter the money spenders. He can be the poet at the tailor's door telling the shabbily clothed that their garments will do, and leading them off to admire the landscape on the hill.

Beautiful Pictures.

The artist's sense of beauty is of value to us all, and it is good when commercial overtures can be made beautiful, but the real task of the artist is to be the discoverer of the beautiful in what is of utilitarian value, and not simply to hitch the wagon to a star or to paint a mustard pot into a forest glade.

There are plenty of themes for the artist's brush in close association with what is to be advertised. There is majesty in driving wheels, dignity and power in great, throbbing hives of labour; there is homeliness and sunshine in the wares of merchants, but to tack them on, in an artificial way, to a fantastic and foreign beauty that has no more natural relationship with them than it has to Manchester Ship Canal or the canals of Mars, is simply to make the eyes turn away or set them the task of separating the disagreeing parts.

It is wonderful how clearly some firms realize this fact and can use the artist's talents with unerring precision; never shocking the sense of fitness nor straining the proper use of art.

The Commercial Mind.

It is not easy to generalize; but from the writer's knowledge of artists, the idea suggests itself that where the advertisement is unsuccessful through two unconnected ideas being hurled together, or through the picture being obviously "manufactured," the explanation is that the commercial mind and the artistic mind have not been quite in harmony.

The business man who regards the artist just as he does the sugar merchant or the chief foreman, won't get the best value out of him. He cannot buy his scenery and paint in a pot of mustard, or tell him what to paint, with absolute satisfaction; there will be something missing about the work.

The artist's imagination is what the business man should seek for. The endeavour may lead to disappointment, but it should also lead to successes. The artist should be brought into council.

This need not, of course, cut out those advantages that come like golden opportunities. Some of our best picture advertisements were painted with no thought of commercial use, but they exactly hit the idea and the advertiser bought and used them.

The advertiser who intends to use pictures should not be too rigid in planning his campaign. He cannot, in this work, vote a precise amount of money and adhere to his programme, as he can often do in other parts of his publicity. When the picture tells, it is enormously forceful and is worth using largely; but the mediocre picture is not worth publishing.

If an advertiser cannot get the really useful picture, especially for poster work, he had better cut the poster out altogether.

SECTION 27

Postal Publicity

FOR MANUFACTURERS ; FOR WHOLESALEERS, MERCHANTS AND AGENTS ; AND FOR RETAILERS

By MAX RITTENBERG

CHAPTER I

THE MANUFACTURER'S NEEDS

Few manufacturers become "national advertisers."

The process of forcing a new branded article on the public—through widespread advertising in the big newspapers, on the hoardings, on the railway stations, and so forth—needs large capital. An expenditure of a couple of thousand pounds can "go up in smoke" without appreciably warming the temperature. Ten thousand pounds and more may be needed before the public becomes "sold" on the article, and "accepts" it as a standard line.

Any advertising man of experience knows this. He realizes that a new article, competing with other lines already accepted by the public, will have a hard fight before it—even though it may be all that its fond parent believes it to be. And any straightforward advertising man will warn off a manufacturer who optimistically thinks that a small advertising appropriation in the national newspapers will work miracles for him.

Few manufacturers can provide the capital necessary to become "national advertisers"—but *every* manufacturer can afford and can profitably use some form of postal publicity. In fact, *every business man* needs it. There is no business, however small, which cannot afford to use the mails to carry some part of its message.

The reasons are well known, and need only be summarized—

(a) The message goes *direct* to the man or woman you want to reach.

(b) A test campaign of letter, or letter and printed enclosure, can be made for five or ten pounds. 1,000 prospects can be reached for that sum. 1,000 circulars will be sufficient to "test the pulse" of the class of prospects addressed.

(c) The test campaign can be continued in similar small doses until the right method of appeal is found.

(d) The campaign can be "localized" in any way desired.

(e) When small tests have shown which is the right method, one can attack the whole list of prospects—with a certainty that they will react in the same general way as the "straw vote."

(f) Any number of prospects can be tackled *simultaneously*, thereby saving the firm valuable time.

The above is so obvious that it needs no elaboration. It applies to every class of business man.

But, for the manufacturer, there are certain *limitations* (or pitfalls) in postal publicity; and it is to these we must first give attention, before discussing the methods which are most effective. Some people jump into expensive plans of postal publicity without realizing these limitations, and then say: "Postal publicity is no good for *us*," whereas the fault lay in not using the method properly.

The Limitations of Postal Publicity.

Take first the case of a manufacturer, large or small, who has a *staple article for popular consumption*—an article very similar (in the eyes of the public) to others already familiar by use or by reputation.

This article is already stocked by a fair number of retailers, but it is not pushed by them. It remains in the background, until specially asked for by the housewife. And the manufacturer is wondering if he cannot stimulate the demand by a direct appeal to the housewife herself, through the post.

One might think hastily, that this manufacturer's "field" would be every household able to buy it—every household which pays a rental of so-much and over. It is easy to obtain addressing lists of graded rentals. It is simple to send some sort of letter or folder pointing out the excellences of the new article, and inviting the housewife to demand it from her retailer. Further, the appeal can easily be "localized" to those districts where the retailers have stocked up on the goods.

But, looking deeper, the field is *not* every housewife. It is only those housewives who are reasonably open-minded on the subject of trying a new brand of staple article. No addressing list can possibly give you these. There is bound to be a very heavy wastage from addressing circulars to those who are *not* open-minded.

In fact, postal publicity might be too expensive for this case. The cost might work out too heavy in proportion to results.

Consider, against this, the case of a manufacturer with a new *speciality for popular consumption*—something which is not competing against a dozen established favourites. For this

man, an addressing list of households with a rental of so-much and over is a much more favourable field. It gives a very good chance of success.

Take a third case, a manufacturer with a *specialty appealing only to a selected "class"*—as for instance, doctors and surgeons. Here, postal publicity to a list of medical men will unquestionably be the right method, the method which will pay best.

In brief, when you can "pick your bird"—when you know that what you have to say will be definitely novel and interesting to the particular kind of man or woman addressed—postal publicity will in most cases prove far cheaper than newspaper advertising or any other form of advertising.

But, when you cannot "segregate" in this way, the wastage of shot will be too heavy. The barrage will go into No-Man's Land.

This first limitation is the difficulty of finding the names of "interested parties."

One Attempt not always Sufficient.

A second limitation is this: One single letter or circular may not be sufficient to produce profitable results.

Take the definite instance of a manufacturer with a specialty likely to appeal particularly to hotels and clubs. The managers of hotels form a "class" easily to be located. So do the secretaries of clubs. One knows that they are interested parties; and it is simple to obtain their addresses.

But what one does *not* know, in many cases, is the selling argument which will secure them. In the particular case the writer has in mind, there were five distinct selling points to the article. A small shot was first tried, including all the selling points. It failed. A second test shot—differently worded, but including all the points—was also a failure.

It was then considered that postal methods were no good, and a traveller was sent out. He was not a man with strong selling ability, and his results were mediocre. A high-grade traveller was then tried, and did well.

In detailed discussion with him, it was found that his success lay largely in fitting the right selling argument to the particular man addressed. Every good traveller is ready to vary his methods, and adjust himself to the view-point of the man he is trying to sell to.

Arising out of this analysis, it was felt that another postal campaign ought to be tried, in order to reach to a very large number of prospects in a short space of time. *But*, this time, the five selling arguments were not bunched together into one letter and printed enclosure. They were distributed over five different "shots." If the

prospect did not "come up" on the first appeal, the second went out to him, and so on—the regular method of a series of follow-up letters.

It succeeded in this case. It will succeed in a great many cases. It is specially needed when the specialty is an expensive one, and when the methods of appeal to the prospects are many.

It is not every message which can be conveyed effectively by one letter. Many articles require postal persistence, and the *cumulative effect* of presenting the same article under different aspects of appeal.

This second limitation is the difficulty of convincing at one attempt.

Difficulty of Selling Textiles.

A third limitation is that some articles cannot be easily sold to the prospect by pictures and wording.

This applies particularly to textiles. Black-and-white will not convey the proper idea of delicate shades and patterns. To illustrate in full colours means a heavy expense in the colour blocks and the tri-colour printing. And further, even if this expense be shouldered, the *feel* of the material is not conveyed—and the feel of it is a very important factor in the mind of the purchaser.

Actual sample patterns can, of course, be sent. But will the cost of them be justified?

The writer does not say that it is impossible to sell textiles through the post. But, it is usually very difficult to do so at a profit.

This third limitation is the difficulty of adequately conveying certain articles in paper and print.

A Selling Plan.

A fourth limitation is of very wide application. It needs to be taken into account by business men of all classes.

It arises in this way: from the tameness of an appeal to buy "straight." To introduce a new line of goods to a prospect, means that one has to break down his *weddedness* to a similar article; or his *prejudices* against trying anything new; or his *reluctance* (in the case of a retailer) to burden himself with further lines of stock; or the *indifference and apathy and laziness-of-mind* which is so inherent in human nature.

To break these down requires a strong effort. And offering the goods on a straight selling proposition may not be strong enough to break open the door. It frequently is not.

The majority of successful selling campaigns embody a *selling plan*—some special offer or inducement to the prospect. In fact, in the construction of a postal campaign, one of the foremost points to consider is the nature of the introductory offer.

It need not offer much. It may seem to offer much more than it actually does. But it should be there—that extra push which will open the difficult door.

This fourth limitation is the difficulty of selling "straight" on a first introduction.

Now that the writer has pointed out the difficulties and the pitfalls of postal publicity, he can conscientiously proceed to discuss the

man producing a specialty with an appeal to a distinct "class" of people.

Where the names and addresses of these people are known, postal publicity is definitely to be recommended. It is plain common sense to go DIRECT to the man or woman who is naturally interested. It is the logical method. And it has been proved, again and again, in all sorts of lines of manufacture, to be a profitable method.



Photo lent by

"The Draper and Drapery Times"

SECTION OF MACHINE ROOM
Messrs. Sharp, Perrin & Co., Underclothing Department

methods which have proved themselves in practical experience to be profitable for manufacturers.

Postal Methods which Pay.

A manufacturer can use the mails to carry his message to—

- The consumer—buying through-the-trade.
- The retailer.
- The factor and wholesaler.
- The agent, at home and abroad, and
- The consumer—buying direct-by-mail.

To the Consumer Buying through the Trade.

As explained above, the manufacturer who can use the mails to most profitable purpose is the

The first question to determine is whether you are to ask the prospect to—

Go to a local dealer.

Or—send the order direct to yourself, with the idea of handing it over to the local dealer.

Or—send the order direct to yourself, with the idea of filling it from the factory.

The latter means "mail order"; and few manufacturers can afford to incur the antagonism of the dealers in selling by mail as well as through-the-trade. But, look at the matter from the consumer's point of view: if he sends in his money, he expects to receive the goods by return of post. To keep him waiting while the order goes through the hands of a local dealer, is something he is likely to resent—and it will give him a bad impression from the start.

Filling Order from Factory.

In order to avoid such a delay, and at the same time avoid the resentment of the local trader at mail order selling, a very well-known London firm have used the following method with conspicuous success. They fill the order direct from the factory. Simultaneously, they send a notification to the local dealer that here is a new customer for him. And, to prove to him that the order has only been filled from the factory in order to save delay—not to snatch a trifling profit—they send with this notification to the dealer a credit note covering the profit which he would have made, if the purchase had gone through his hands.

This is a very broad and far-sighted policy. It satisfies the customer. It appeases the dealer. It actually puts into the dealer's hands a piece of money for which he has done no work. And further, it has often been used as the means for opening an account with a dealer who has not previously stocked the line.

In all cases where mail order selling is not the policy of the manufacturer, the consumer sending in his order direct to the factory should always be asked to give the name and address of the local dealer from whom he usually buys.

Passing Order to Local Dealer.

If the second of the three sales policies be used—passing on the order to the local dealer for him to fill—then the office system must be so arranged that the order is passed along with a minimum loss of time.

One firm, selling a fairly expensive article, make very sure of avoiding delay by relaying the order *by telegram*. This means a double saving of time: first, in the actual transmission over the wire; and secondly, because a telegram reads "Urgent!" to anyone who receives it.

Referring Customer to Local Dealer.

When the line of sales policy is to send the consumer direct to his local dealer, it is generally advisable to use some form of "coupon" or "voucher." This has a treble purpose—

1. It helps to "break open the door," by putting into the consumer's hands something which represents money—or at all events, a saving of money—in the purchase of the article. It is therefore a selling plan—and one which has an everlasting appeal to human nature. It has been used thousands of times to introduce new lines of goods—and it can be used again and again, so long as a certain *freshness* is given to the actual method of presentation.

2. It proves to the dealer that you are stirring up trade for him, and putting that trade direct into his hands. It gives him a profit without his having to reach for it himself. It is the finest

possible method of impressing upon him that there is a public need for your line, and that this need is more than a "passive acceptance"—it is an "active demand."

3. When these coupons or vouchers are returned to you from the dealers, they show how far the postal publicity has been effective; in what districts it answers best; and what are the kinds of people who respond to it. In brief, it is the method for "keying" such publicity.

For many articles, a selling plan involving some form of "offer" is necessary to the success of the scheme. But this does not apply to all cases. A specialty article without competition—or considerably removed from competition because of its very apparent superiorities—can be sold "straight." In this case, there is no voucher or coupon to take to the dealer. Yet it is strongly advisable, from every point of view, that the dealer should know this trade has been stirred up for him by you; and that you should know the extent of the stirring up.

Therefore, give the consumer something to take in his hand to the dealer. It may be only a little card to ask Mr. Dealer to give special attention to this customer. That is, in many cases, sufficient to get the card carried. Or it may be an even stronger suggestion on the card that by presenting it, the prospect will obtain the pick of the assortment, or be specially favoured in the matter of quickness of delivery.

Letting Dealer do Circularizing.

Another form of postal publicity direct to the consumer is where the dealer supplies a list of likely people in his neighbourhood, and the manufacturer supplies him with facsimile letters (on the dealer's letter-heading), or printed matter, to send out to these prospects.

This method has often proved successful. The point to guard against is that the dealer will want to address to too big a list of names. That is to say, he will if he is not footing the bill! Where the manufacturer pays all costs, the natural tendency will be for the dealer to mark off in a directory a whole string of names, likely and unlikely.

In order to guard against this, it is usually considered essential that the dealer should bear part of the cost—which will make him careful in picking his list of names and weeding out the unlikely ones. Some firms offer to split the charges half-and-half with the dealer. Others supply stationery, facsimile letters, printed matter, and the envelopes to contain them—and leave the dealer to pay for postage, or cost of delivering by hand.

The Consumer's Attitude.

Whatever be the *sales policy* the method of presentation to the consumer must be definitely



A LARGE BOOT FACTORY
Equipped with the " Keith Light "

Messrs. James Keith & Blackman Co., Ltd.

By permission

strong in order to achieve its object. The writer's experience, in assisting many types of business men to develop their sales, is that the fond parent of a line of goods sees its excellence so vividly, that he believes everyone will fall in love with his infant at sight. But the consumer has his own babies—his personal ambitions in business or professional life, and his private interests. He is not in an attitude of "open arms" towards the other man's infant. He is liable to be quite indifferent to it. He may even be strongly prejudiced against it.

Take, for instance, the many excellent office appliances which undoubtedly reduce labour and save money for those who install them. On the face of it, dozens of these office appliances have an overwhelming case for instant purchase by the business man. Their claims are provable by test, and backed up by testimonials from satisfied users.

Yet, it is well known that the majority of office appliances have had a very hard fight to establish themselves. They have taken years to come to a point where they sell freely. One of the very finest office appliances—an absolutely standard machine, and easily leading its rivals—cannot even yet be sold "straight." It has to be offered on trial for a fortnight in the prospect's own office—and at that, it is still a difficult matter to get him to come such a little way as to accept a fortnight's free trial.

If this applies to specialties which possess very apparent superiorities, and demonstrably will make money or save money for the man who buys them—how much more strongly must it apply to the staple article which is launched in competition with dozens of others already established in popular favour! Foodstuffs; soap and other cleansing materials; articles sold in packets and tins to the housewife; cigarettes and tobacco sold to men; boots and shoes and hats and other forms of wearing apparel—all these are liable to find the consumer in an attitude of indifference to the manufacturer's postal appeal—or for that matter, to any other form of advertising.

The appeal must be exceptionally strong, and well-conceived, and well presented, in order to whet desire and arouse to action. In any form of advertising for a staple article, whether through-the-post or by other means, it is always advisable to use the best expert advertising brains and experience available.

To secure the interests of your project—to make him catch at-a-glance that his *self-interest* lies in reading and studying the offer—is a big problem, and needs to be handled with the greatest care. No one wants to be sold anything. This is elementary. The natural instinct of human nature is to resent being forced into giving up hard-earned money. People like to feel that they are exercising their own free will in buying, and are following the dictates of their own best judgment.

A successful selling letter realizes this attitude of mind. It puts the offer into such a form that the prospect feels that he is being offered an *opportunity*—something which his own self-interest tells him should be taken advantage of.

In every form of postal publicity, one of the yard-sticks by which to measure its probable effectiveness is this: "Is it just a selling letter? Or, is it an OPPORTUNITY letter?"

To the Retailer.

Every manufacturer selling through-the-trade can profitably use the mails to carry some part of his message to retailers.

This is not to imply that travellers can be done away with. They cannot. They are essential. But the number of people they can call on per week is necessarily limited. Some smaller towns they cannot touch at all, because railway connections are poor, and it takes too long to get in-and-out of that town. Even the largest firms, employing extensive forces of travellers, find that they cannot cover the whole country.

Further, the usual traveller's route is arranged so that he calls on his trade once every two or three months. This means that in between his calls, the travellers of rival firms are calling on the same retailers, and are liable to pick up those "in-between orders."

The logical deduction is not to increase the force of travellers and enable them to call twice as often. It would not pay, in most cases, to do this, because the in-between orders are liable to be small. But such orders can certainly be picked up by letters or circulars to the retailers, *timed* so as to come in between the traveller's calls—and arranged to be sent out by routine on a system based on his journeys.

Further, it is always in order to shoot out to the retailer notification of a new special line or a change of prices. The force of travellers cannot carry this message to all the retail customers simultaneously. The post office can.

Some firms find that about a quarter of their trade comes in through the post. Others find the proportion between post orders and travellers' orders about half-and-half. In a few cases, post orders may bulk as high as 75 per cent. This shows that retailers are not usually prejudiced in favour of giving their order to a traveller; nor influenced only by the traveller's personality and selling talk. The average retailer is concerned first-and-foremost with his profits—with buying what seems to him the most saleable goods, in the cheapest market. He does not greatly care from whom he buys—and frequently he considers that it saves him time to write out his post orders in the quietness of the evening after regular shop hours, instead of spending time in discussion with

a traveller during the busy working hours of the day, when he wants to be *selling*.

Travellers' calls may be to him an interruption of his business, at a time when he has many other things to do which seem of greater consequence to himself. In the writing out of a post order, he chooses his own time, and he is free from what he may think is the pushfulness of the traveller in trying to get him to take up lines against his own better judgment.

Therefore it is natural and logical for the retailer to order by post. And it is equally natural and logical for the manufacturer to solicit orders by post.

This applies not only to selling the retailer the kind of thing he is already buying from the firm, but also to the introduction of entirely new lines. And further, to the opening of new accounts. Again and again it has been proved that skilfully devised letters and printed matter, with a strong "profit appeal" to the retailer, have opened new accounts at less cost than by traveller—and with the further big advantage that the whole of the trade can be reached, if desired, inside twenty-four hours.

The limitations to a postal appeal which have already been pointed out, apply to addressing the retailer as well as the consumer-prospect. In the case of a staple article offered in competition with other staples, there is the same difficulty of finding the retailers who are open-minded on the subject. There is the same difficulty of convincing the man by one appeal only; and of adequately conveying certain articles, such as textiles, in paper and print; and of effecting an opening wedge without some form of "special offer" or other carefully devised inducement to try a new line.

Apart from these limitations, postal publicity to the retailer is a natural and logical and usually profitable method. The names and addresses of the prospects are known. One goes *direct* to the man one wants to reach. He is an interested party. He is a buyer for your goods, if only you can prove to him that it will be thoroughly worth-his-while to do so.

The Form of the Message.

In regard to the physical form of carrying the message to the retailer, some people affirm that the retailer does not want to read letters. This is true in the sense that he does not want to read close-packed, long-winded letters, out of which it is difficult for him to extract the meat. Letters to retailers should be as brief as is consistent with telling him clearly *how he will make a profit*.

Frequently, printed literature serves the purpose better than letters. Large folders are especially useful. The heart of the message can be punched out in big and heavy type. Colours can be used, for the double purpose of illustrating the goods,

and of securing the retailer's attention and interest in a pleasant and favourable way.

In brief, the message to the retailer should hit out hard—talk profits—be easily readable by a busy man with little time to spare—be clear, firm and strong.

Display Matter.

Dealer-helps, that is to say, any form of show cards or window transparencies or other display matter which will help the retailer to move the goods you sell to him—can be offered by mail as well as by travellers, and can be offered simultaneously to the whole trade.

Many shrewd firms take great care not to distribute their expensive show cards and other display matter broadcast. The retailer does not appreciate what is thrust at him without his asking for it. And the waste of good material becomes too heavy.

Many firms find it a paying proposition to spend more than usual in producing exceptionally attractive show cards and display matter; to reproduce these small in their actual colours; and to send the reproductions by post to the trade—asking if they want to have them, and how many can they usefully take? One sales manager said this: "We wouldn't mind spending a sovereign apiece on the retailer's display matter, if we were certain he would make good use of it. We would sooner do this than supply matter costing half-a-crown apiece, with the feeling that less than 1 in 10 would actually be used."

Another firm, realizing the trouble to the retailer involved in putting up a window transparency, and therefore his reluctance to do so, made sure of getting this valuable advertisement for their goods by writing to the retailer that they realized the trouble it would mean; that he might have to call in an outside man to fix it up for him; and so they were enclosing a postal order to cover what they estimated would be the cost of employing such outside help. That is obviously the kind of thing which makes the retailer feel that the manufacturer sees his point of view, and realizes his attitude towards display matter.

The House Magazine.

The house magazine sent to retailers—once a month or once every two months—is another excellent form of postal publicity. It can build prestige; create goodwill; and carry a sales message of seasonal offerings. The cost of a house magazine, if capably edited and well produced, is, of course, heavy—and is not to be carried out by a small firm. But for a medium-sized firm which is pretty securely established, the investment can—and frequently does—come back in profits many times over.

The least expensive form is the "news-sheet," which may be only four pages of matter—highly

condensed matter definitely interesting or useful to the readers—together with space for descriptions of new offerings. The writer has some successful examples of this in mind.

BUDGETING FOR AN ANNUAL EXPENDITURE ON PUBLICITY TO RETAILERS.—See Chapter II, where it is discussed in full for manufacturers as well as wholesales.

To the Factor and Wholesaler.

These large firms are best handled by travellers or other personal representative. The importance

the prospect to “Buy! Buy! BUY!” it is always advisable to change the style of message now and again by sending a letter which asks for no business, but simply conveys a message of friendliness, or offers some form of extra service.

To the Agent at Home and Abroad.

The agent is in a position very different from that of a traveller. He comes into direct contact with the firm only at long intervals. He is concerned with selling other lines of goods besides those of the firm in question.



By permission

Sterling Telephone & Electric Co., Ltd.

A MACHINE SHOP

At the factory of the Sterling Telephone & Electric Co., Ltd.

of the firms, and the size of the orders they can place, entitle them to expect a personal solicitation of their buying. And in view of the selling pressure on them from dozens or scores of manufacturers, it is better business to go after them by personal canvas.

Nevertheless, postal methods find their logical place in this type of selling. They are especially useful for the purpose of quick notifications of new offerings and price changes—and also for the important purpose of creating goodwill by a friendly letter which conveys only a “shake-hands,” and does not attempt to sell anything in particular.

In fact, in any business sending out many letters in the course of the year, each letter asking

This means, he has to be kept “warm”—and indeed, enthused—by regular correspondence throughout the year, which will take the place of the usual personal talk and discussion with travellers. It is not sufficient to send him formal notification from time to time of fresh lines of goods or price changes. These are essential, of course; but they do not *complete* the business relationship. His original enthusiasm must be kept alive.

In business dealings through agents, it should be a recognized part of the sales policy to enthuse them regularly by letters which will take the place of that personal pat on the back, or friendly criticism, which happens as a matter of course between a principal and his office staff.

To the Consumer (Selling Direct by Mail).

We have assumed before that the manufacturer is not going to sell to the consumer by mail-order as well as through-the-trade. He is not going to attempt to "run with the hare and hunt with the hounds." If his sales policy is to sell by mail, that will be the bedrock of his business.

Whether a definite article can be sold more profitably through newspaper advertisement or through postal methods depends primarily on whether one can secure an addressing list of the right people. If one can, then use the mails. If one cannot, then use the newspapers and magazines.

Take one case of very frequent occurrence: a manufacturer with a small household novelty. The market for this may be any and every household in the United Kingdom. But that is too wide a classification for a mailing list. The cheaper medium for this man would be to use newspapers and popular magazines.

On the other hand, assume the case of a luxury article which can only sell to people who are reasonably well-to-do. A mailing list to householders with telephone numbers would be an entirely reasonable mailing list. A man or woman who goes to the expense of a private telephone in the house can be assumed to have some money to spare for goods which are more than staple necessities.

The mailing list will be still more effective if one can secure the names and addresses of people who have already bought some article by mail, and therefore are to some extent accustomed to buy by that method. These lists are obtainable—at a price. The price may be high, but one saves on the circulars which are not wasted.

If the article has a definite "class appeal"—i.e. to a particular kind of business man or professional man—postal publicity will be the cheapest of all methods.

In the case of an expensive article such as a piece of household machinery, or a piece of office machinery, or a set of expensive books, then it must always be remembered that one letter alone may not be sufficient for the purpose. The right method for such a campaign is to devise a series of three or four circulars—either letters, or printed matter, or letters with printed enclosures. These can be tested out in small batches of 1,000 or a couple of thousand apiece, until it is discovered how many are needed in order to sell the article profitably.

No one can say beforehand that so many follow-ups are needed. Each case needs to be tested out on its own merits. The big advantage of postal publicity is that the experimenting can be made in small tests, or localized by districts, at a very reasonable outlay—until the right method be found for application to the entire list of prospects.

CHAPTER II

THE NEEDS OF THE WHOLESALE, MERCHANT, AND AGENT

A GREAT deal of what has been said about the manufacturer's needs applies here, so that Chapter I should be read through by the wholesaler, merchant, and agent.

The *natural* advertising medium of the wholesaler, the merchant and the agent is through the post. The only alternative is the use of trade and class journals and directories. There are many excellent class journals and trade papers where the advertising pages are valuable to the advertiser; but it is pretty generally known that some of the trade papers produce very poor returns, either judged by enquiries or judged by orders.

In fact, few trade papers are keen to sell advertising space when the advertiser states that he is going to judge the value of the medium by the results he obtains from it. The usual argument is that the trade paper rewards the advertiser in the form of general publicity and prestige. The results, therefore, are to be taken "on faith."

With postal publicity, on the other hand, there is no need to ask for illimitable faith. It is to be judged on returns in actual sales—either reflected through post orders, or from the combined turnover from post orders and travellers in a given territory.

If a selling letter does not "pull" in tangible results within thirty days, the writer would never attribute it to some unknown general benefit in prestige. If it does not "pull," it has failed. Either the offer is unattractive, or the presentation is bad.

Postal publicity stands or falls on tangible results.

Chief Uses of the Mail.

The chief uses of the mail are—

1. To break the ground for travellers.
2. To pick up orders in between travellers' calls.
3. To pick up an order when a traveller has not managed to see a buyer and cannot conveniently call again, because of his routing.
4. To continue a sale partially made by a traveller.
5. To make a rapid offer of fresh goods, or to notify price changes, to a large number of customers and prospects simultaneously.
6. To send an occasional message of goodwill to customers

The above summaries are almost self-explanatory. But perhaps it might be advisable to enlarge on Nos. 3 and 4.

It frequently happens that a traveller is unable to see a particular buyer—either because the buyer is out or is too busy to see him. The answer comes from an inner office: "Call again." And it may be highly inconvenient for the traveller

to call again. He has allowed himself a certain time for working that particular town, and his arrangements necessitate his moving on the same evening to another town.

It is in these cases that many firms employ to advantage the "Call again letter." This means, the traveller notifies head office that he has been unable to see Mr. So-and-so. He reports these failures regularly on his daily report sheet. He asks on his report sheet that the firm will at once send out a stock letter to that buyer. There may be several forms of stock letters. They will be indicated by letters or numbers. With the least possible delay, the firm writes to the buyer, so as to pick up the traveller's effort and maintain the continuity of his calls on the trade.

Similarly, a traveller carrying a specialty may fail to clinch the sale at one call. If it is not practicable for him to call again within a week, he notifies head office to send a letter which will keep up the prospect's interest until he is able to get to his man again.

The Budget

In devising postal publicity plans, it is strongly advisable to "budget" for a year ahead. The first thing to be determined in the budget is how much can reasonably be spent, per customer and per prospect, during the coming twelve months. Suppose, for instance, that the total trade from the average retailer to a particular wholesaler is £100 per annum; and that it is considered advisable to budget for a postal publicity allocation of 1 per cent on turnover. This means £1 per annum to be invested not only on the customer, but also to prospects. The £1 has to cover both.

Let us further assume that for every actual customer, there are two enquirers or prospects who have been called on by travellers without effecting a sale, and two prospects who are "cold"—i.e. the travellers have not called on them; their names have been taken from a directory as sounding likely buyers, or have been obtained by hearsay. (These proportions will, of course, vary with every business.)

The £1 has to be split between the "warm" customer, the "lukewarm" prospects, and the "cold" prospects. It is, of course, evident that more money can profitably be invested in advertising to the first man than to the second; and to the second man than to the third. We might divide the £1 as set out below—

	s. d.	s. d.
To the "Warm" Customer	7	6
6 selling letters	9	
Price lists and folders	1	9
Catalogue	2	0
Christmas goodwill-gift	3	0
	<u>7</u>	<u>6</u>

	s. d.	s. d.
To the two "Lukewarm" Prospects, each	4	3
6 selling letters	9	
Price lists and folders	1	6
Catalogue	2	0
	<u>4</u>	<u>3</u>

	s. d.	s. d.
To the two "Cold" prospects, each	2	—
4 selling letters	6	
Price lists and folders	1	6
	<u>2</u>	<u>—</u>

The warm customer gets a catalogue and a Christmas goodwill-gift. The lukewarm prospect gets the catalogue, at the traveller's request. The cold prospect gets no catalogue, because it is usually waste of money to send an expensive catalogue to a man who has not yet expressed any interest in buying from you.

The right thing for the latter class of man is folders and other forms of printed circulars, designed to make an entering wedge into his custom.

You will, of course, regard the above figures only as a generalized survey. Some wholesale businesses will need a catalogue much more expensive than allowed for above. Some merchants and agents will need no catalogue at all—only an inexpensive price list. The figures of the budget would have to be adapted individually to any particular business.

The important general principle is to decide first of all on what can profitably be allocated to publicity; then, how this amount is to be divided over the three classes of buyers; and finally, the quantity of any of the circular matter which can be sent to each. Indeed, a budget of a similar kind can be and should be made by the manufacturer selling to the retailer.

Manufacturer's Budget.

The budget for a manufacturer will differ in these ways—

1. The annual trade from the average retailer may be much less than £100. Let us take £20 per annum as a specific figure.

2. The percentage of turnover which can be allocated to postal publicity will be higher in a manufacturing business than in a wholesale business, because the gross profit is higher. Let us take the figure of 3 per cent.

3. The manufacturer has to allow for the cost of show cards and display matter, whereas the wholesaler gets these free from his suppliers for distribution to retailers.

On an annual trade of £20, 3 per cent will be 12s.

This could be divided as shown on the following page.

	s.	d.	s.	d.
To a "Warm" customer			5	—
6 selling letters			9	
Price lists and folders			1	—
Catalogue			1	—
Display matter			2	3
			5	—
To the two "Lukewarm" prospects, each			2	3
4 selling letters			6	
Price lists and folders			9	
Catalogue			1	—
			2	3
To the two "Cold" prospects, each			1	3
4 selling letters			6	
Price lists and folders			9	
			1	3

In the case of a merchant or agent who is starting out in business, the budget cannot be made in the above form, because he does not yet know the extent of his annual turnover or the average amount which will be bought from him in the course of the year by an average customer. A lump sum has therefore to be allocated. It need not be actually used. Whether it is used depends on carefully feeling one's way, and finding out from experience the effects of the postal publicity.

Here is one very important point in connection with making "tests." Test only one thing at a time. If you are testing for the right class of names to address to, test that point alone. If one were to mix the tests—as by experimenting on names and experimenting on the nature of the postage at the same time—one would never know which factor caused the success or failure of the shot.

CHAPTER III

THE NEEDS OF THE RETAILER

THERE is a great deal already written under the headings of the needs of the manufacturer and the wholesaler which applies also to the retailer. The *general principles* of postal publicity are in fact applicable to every business man.

The writer should mention at the start that he is not advocating postal publicity as a universal panacea for every retailer. When unemployment is heavy in a district, and people of all classes are forced to economize, no form of advertising will work miracles in extracting money from their pockets, because the money is not there!

The Time to Advertise.

Broadly speaking, the best time for advertising for the retailer is when his shop sales show that the public buying is good. At these times, he

can wisely reach out for new customers—by sending circular letters or printed matter to those who are likely buyers, but have never traded with him. On the other hand, when times are difficult and money is very tight, he will do best by restricting his advertising to postal messages to customers only—and this, only to notify them of special bargain lines, or of some novelty with an extremely strong appeal.

The Budget.

As with the manufacturer and the wholesaler, it is very advisable to "budget" for a year ahead on the amount which is to be invested in advertising. (See Chapter II.) This amount is best reckoned at so much per cent on the turnover of the last year. It has then to be divided up between advertising to existing customers; to old customers who have "lapsed from the fold"; and to "cold" prospects. The amount to be spent on each might reasonably be in the ratio of 4 : 2 : 1. And the whole amount is to be included in the agreed percentage on last year's turnover.

Departmental Stores.

The big departmental stores have, of course, carried postal advertising to a fine art, and made it very profitable. Their big advantage does not rest in the percentage amount they spend on advertising through the post (or by any other means), because their percentage may be no higher than that of the small retailer. In fact, it may be lower. Their big advantage lies in the number of different classes of goods they can offer to the same customer, and in the expert brains they can afford to employ in devising their publicity. The customer who has already been thoroughly satisfied on one line of purchase—say, clothing—is in a receptive frame of mind to listen to an appeal to purchase in the furniture department, or grocery department, or coal department, and so on.

The Local Retailer.

The only advantage to the customer which the local retailer can offer over the central departmental store, is his *nearness to the customer* and the *personal attention* he can give to the customer. There is usually no advantage of price, or in range of stock. The reason people buy locally is clearly because they can "pop round the corner" and get what they want without travelling specially to the centre of a city; and also in many cases because they feel friendly disposed towards the local man who is there *in person* to serve them.

But if the big city store makes a broadcast announcement of special bargain lines, the average housewife does not hesitate for a moment to switch her local buying to purchasing from the central store, or even purchasing by mail from a store in another city.

All this has to be realized clearly by the local retailer. He may feel that he has a *right* to the custom of the housewife in the next street, and that she is morally bound to come and buy from him. Usually, the housewife recognizes no such right. As the buyer for her household, it is her business—and her duty—to purchase in the cheapest market, or wherever she feels she gets the service which will save her time and trouble.

helps to "tone up" the shop itself and the people in the shop. If the proprietor sits down and pens a letter in which he asks the prospect to come and buy from him because that prospect will get better service, or quicker delivery, or more courteous attention than she would get at a departmental store—and if he sends that letter out in any quantity—he begins to feel that he must *live up to it*. His own statements come back to



By permission

A WORK-ROOM IN A BOOT FACTORY

The B.T.H. Co., Ltd.

Each sewing machine is lighted by an individual unit consisting of a Mazda lamp in a Mazdalux reflector.

Just the same applies to the man when he is buying his own personal requisites. It is a matter of price and personal convenience where he buys—whether locally, or in the city during the day. He usually feels no claim whatever to buy from the local traders.

The result of this feeling is that postal advertising by the smaller retailer has to be exceptionally strong and convincing if it is to turn out profitable. And strong advertising necessarily means that there must be the right goods and a definite "something extra" in service behind that advertisement.

Now here is a point not generally realized. One of the by-products of strong publicity is that it

himself in a desire and urge to keep faith with his written word, and to retain his self-respect by making those words absolutely true.

This is an aspect of publicity which is rarely mentioned. Yet the writer knows of many cases amongst large manufacturing firms, as well as amongst retailers, where the action of proclaiming in print that the house gives extra value or extra service, has resulted in the house setting itself in order, and definitely doing so.

Methods.

The retailer has three methods of sending out his message—

1. By general publicity in the local newspapers, trams, buses, etc.
2. Through the post.
3. Delivery by hand.

In regard to method 1, where the trader makes a contract for space every week in the local newspaper, and then just "fills the space" with much the same announcement week after week, a colossal sum of money must be wasted in the aggregate. A generalized advertisement of this kind—and there are hundreds of thousands of such advertisements in the United Kingdom—is practically passed over by the reader of the newspaper. There is no "news interest" in it. There is nothing to arouse a desire to buy at that shop. And as for forcing on the mind of the reader the name and address of the shop, there is very little in this. An attractive shop front and window display are far more effective in impressing the shop on local residents.

The above type of advertising is often sheer waste of money. The reason why retailers persist in it, is because they are not able to check results from it. They take it "on faith," without the test of results on which postal publicity is always judged.

Of course, there is a certain amount of retailer advertising in local papers which is definitely good and productive. As, for instance, when a man with personality—and some ability to put his personality into paper and print—sets out a weekly talk to the public, varying the talk each week and thereby injecting "news interest" into his announcements of goods and service. That same man would also write good postal publicity.

In regard to method 2, do not take it on faith. Test it out in small doses. Let returns be the referee. If the returns are bad, set to work to analyse the reasons for this.

First, is the time right? Have people money to spend? Next, is the mailing list right? Are your circulars reaching to the right people? Can these people come easily to your place of business?

If there is a sound answer to the above questions, then the reason for non-success must lie in the nature of the appeal. It will not depend, by the way, on whether you are using printed-rate postage or letter-rate postage—except in unusual cases. The circular letter addressed to the householder will be opened and read in at least nine cases out of ten. Never blame the humble ½d. stamp for the failure of a "shot."

Is the Appeal Right?

Now we come to the kernel of the matter—is the appeal right? The writer has made a point of closely studying circulars which arrive at various households, and in a large number of cases these circulars are totally uninviting in nature, and offer

no outstanding advantage or opportunity for the prospect.

They read, in brief, as: "We want your money." A very large amount of hard-earned cash is wasted over the sending out of circulars of this character. If the retailer reverses himself for a few moments, and studies the circulars which are sent to himself by manufacturing and wholesale houses, he will realize the kinds of letters and printed matter which *make people buy*.

The retailer is the same relation to the wholesaler as the householder is to the retailer.

THE RETAILER

Buys in the cheapest market.

Buys where he gets decent and friendly treatment from the supply house, prompt deliveries, and willing adjustment of mistakes or unsatisfactory goods.

Is attracted by "special offers" from the manufacturer or wholesaler.

THE HOUSEHOLDER

Buys in the cheapest market.

Buys where she receives courteous attention, prompt and punctual delivery, and a ready willingness to exchange or replace goods which do not satisfy her.

Is attracted by "special offers" from the retailer.

And this leads to the conclusion—*do not spend money in advertising in any form unless you have something to say which is thoroughly attractive and enticing*. And whilst one should certainly "budget" for an advertising appropriation, that does not tie one down to sending out circulars at intervals determined beforehand, regardless of whether there is anything specially interesting to say at those times. The kind of messages which are profitable are—

(a) To active customers—news about the goods, or an occasional goodwill letter.

(b) To old customers who have lapsed—an endeavour to bring them back into the fold, by a friendly appeal coupled with some "special offer" of desirable goods.

(c) To prospects—by a bargain offer as an opening wedge.

Delivery by Hand.

In regard to method 3—delivery by hand—this comes within the same general principles of letter and circular matter delivered through the post, except that it may be cheaper to deliver by hand. Of course, it is important that such letters be not merely left on the doorstep of a house—or in the case of a block of flats, bunched together and left on the bottom stair, as they very often are!

A circular sent out by hand should have written or typed on it the words "Delivered by hand," so that the method of delivery may appear to the householder as deliberate, and not casual. And every circular should go into the householder's letter-box.

The attitude of the average housewife towards a circular letter received in a sealed envelope at letter-rate postage; or in an unsealed envelope

by printed-rate postage ; or enclosed by a wrapper and sent out at printed rate postage ; or put into a sealed envelope and delivered by hand, is not greatly different. She is not concerned in how much the firm has paid for delivering it to her. She is concerned as to whether it offers anything which will save money for her, or increase the comfort and happiness of her household.

a friendly householder to show him the matter received in the weeks preceding Christmas, and should save these up for consideration when he is planning his own Christmas advertising in the year following.

In that way, he can have in front of him the kind of material received by a housewife at such times, and thereby realize what he must do



By permission

Messrs. H. F. Gresham & Co., Ltd.

THE MAKING-UP ROOM IN A CLOTH FACTORY

Every retail trader will have his own best seasonal times for circularizing. The month of December is, of course, the time when people's pockets are opening up for the buying of Christmas presents, and it is a time when every retailer can rightly expect that postal advertising should be profitable for him.

But since this thought occurs to a large number of retailers, and they present the householder with a larger number of circulars than at ordinary times, it is very important that your own appeal should *stand out* above the others. The writer suggests that a retailer keen on improving his methods of postal publicity, should arrange with

in order to make his own appeal stand out beyond anything else she is likely to receive.

Retail Selling by Mail.

This is a specialized type of business. It can be run either by a firm which is trading in that way alone, or by a large store which is able to set up an entire department for that particular purpose. It is not usually suited to the smaller retail firm, for the very reason of its being a specialized business—of being in essence an “office” business rather than a “shop” business, and requiring an office organization to handle it properly.

Mail order selling is no easy game. If the

retailer finds it difficult to pull into his shop the people who pass it in the street and can actually see the goods he has on offer; or the people in his neighbourhood who know him to a certain extent by reputation, and are within easy distance of reaching his shop—then, how much more difficult must it be to “carry the shop” to the customer, living a distance away! How strong must the publicity be to induce prospects to go to the trouble of writing a letter and buying a postal order, or filling in a cheque, for the goods; and trusting that money to a firm at a distance away, where they cannot call in to express their dissatisfaction if the goods should happen to be unsatisfactory.

The natural field of a retail house is not “mail order” strictly speaking, but “post order”—the difference being that the latter is intended as a department for the convenience of people who cannot easily reach town, or only come in at long intervals. Practically all departmental stores would rather have a customer come into the store, let him or her choose the goods in person; and deliver the goods by the ordinary methods of retail delivery; rather than have the same buying made by post. In the latter case, there is always the uncertainty as to whether the customer's desires have been quite clearly expressed; there is the cost of special packing for sending through the post, and the heavy postage charges; and in addition, there is the point that the customer coming into the store is likely to be tempted to buy further goods than what she came in for. Whereas, the post order is the end of that particular purchase.

The subject of mail order and post order, in its

details, is a very wide one—and the reader is referred to the later section on MAIL ORDER BUSINESS.

Postal Publicity in General.

This section has purposely dealt very largely with the difficulties, the pitfalls, and the things to be avoided, because mistakes in such matters can be costly, and also because so many people have been put off this potentially profitable method of advertising by making mistakes in ignorance—and then coming to the conclusion that postal publicity “does not pay.”

It is by realizing first the difficulties and limitations of the method, that one comes on to the solid ground of what will definitely pay. And out of a very wide experience of this subject, and from knowing the results achieved by manufacturers, wholesalers, and retailers in many and various lines of businesses, the writer knows the possibilities of profit which lie within, and unhesitatingly says that when carried out on sound lines, it is a form of publicity needed by every business, and able to produce profitable results for every business man.

Do not take it on faith. Test it on a small scale. If the test succeeds, go out confidently on a large scale. But if that test does not succeed straightaway, do not give up. Have your circulars analysed by someone with an “outside” viewpoint and an experience of advertising methods. Find out the weaknesses. Remove the weaknesses; and try again.

A thoroughly strong circular can bring customers “rolling in.” The results are sometimes astonishing.

SECTION 28

The Law of Advertising

By G. STUART KING.

CHAPTER I

THE PREPARATION OF COPY

APART from the ordinary incidents of entering into a commercial contract the advertising manager has to bear in mind a number of special legal matters the nature of which will be considered in this section.

It will be convenient to divide his activities into matters concerning the preparation and the publication of advertisements, and matters dealing with the position as regards persons whom the advertisement is intended to attract.

With regard to the preparation of copy, the legal points to be considered are mainly negative and consist of matter to be avoided.

An advertisement is intended to be read by the general public. Care must therefore be taken not to include anything of a libellous character, or anything in any way likely to injure another's business. Any person injured in his reputation or trade by anything contained in an advertisement may have a claim for damages against the person issuing it. Although general disparaging remarks about another person's goods are not as a rule sufficient to give rise to such a claim, it is safer to make a hard and fast rule not to refer to anyone else's wares by name or implication. Individual comparisons beside being odious, and as a rule bad advertising copy, may easily become expensive. Care should therefore be taken in using testimonials to erase the name of any rival goods to which the writer may have referred in the course of the letter.

The possible existence of copyright in any copy, literary or artistic, which it may be desired to use must also be borne in mind, and if necessary the consent of the author or artist obtained. There is no proprietary right in a general scheme of advertising but there may be in the copy of individual advertisements or in the get-up of a show card or van or similar matter.

It is also necessary to avoid anything like the imitation of a registered trade-mark or any matter which might be considered as an attempt to pass off the goods advertised as those of another trader; also any matter which, contrary to fact, would induce the public to believe that the

advertiser enjoyed Royal patronage. These matters are dealt with more fully in the section of this work relating to Trade-Marks, but it is desirable to emphasize them here as it is not always appreciated that rights of this character may be infringed by the mere issue of an advertisement.

It is, perhaps, hardly necessary to say that nothing indecent or improper must be inserted. In this connection regard must be had to the manner in which the advertisement will be published. There are matters which, if placarded on a large hoarding in Piccadilly Circus, would be highly objectionable, though they could no doubt be included with propriety in a medical journal.

Illegal Advertisements : Lotteries.

There are certain matters which it is illegal to advertise at all, such as betting houses and lotteries.

It is frequently desired to include in an advertising campaign some form of competition, but in this event care is necessary to avoid the penalties of promoting and advertising a lottery.

Any scheme for distributing prizes by lot or chance is a lottery. Any such scheme will be illegal where the prizes are, even partially, found out of contributions from the persons entitled to participate in the draw. The contributions need not be made directly to the lottery or prize fund. It may, for instance, be made a condition of entry that a coupon taken from the wrapper in which the article is sold must be forwarded. But in this case the fact that the purchaser gets full value for his money apart from the chance of winning a prize will not prevent the scheme being illegal. If, however, the right to participate in the scheme is wholly gratuitous the scheme is not illegal as a lottery.

Again, where the exercise of skill or industry on the part of the competitor can, and in fact does, contribute to his success the scheme will be legal, notwithstanding that chance, too, may play a part. It is, however, necessary to be able to show not only that it is theoretically possible for a competitor to have obtained and utilized skill in the competition, but that the average entrant would in fact do so.

CHAPTER II

ISSUE OF THE ADVERTISEMENT

WITH regard to the issue of the advertisement, we will consider the legal points first as to publication otherwise than in the press, and then as to press advertisements.

(a) Publication Otherwise than in the Press.

Before arranging the details of any scheme which involves the use of hoardings, handbills, or any novel form of distributing or displaying advertisements, it is essential to find out from the local authority concerned whether there are any restrictions in regard to such matters.

In the City of London and the Metropolitan Police area, the restriction on the distribution of handbills and the employment of mounted men or vehicles for advertising purposes are very stringent, and it is not safe to embark on any such project without first obtaining the consent of the Commissioner of the City or Metropolitan Police as the case may be.

The powers of other local authorities are not so extensive but they have, as a rule, general powers of regulating the erection of hoardings more than 12 ft. high, and also of forbidding any advertisements which may tend to destroy the amenities of any public park or the beauties of a natural landscape. They also have the right to inspect any hoarding or advertising device overlooking a public street to ensure that it is properly secured. In many places, too, the erection of sky signs is forbidden. By a sky sign is meant any word, model, or other advertising device supported on a house or other erection in such a way as to be visible against the sky from a public street. It does not include a hoarding not more than 3 ft. high erected on the top of a house, provided the hoarding is solid and the sky does not show through it. There are also exemptions in favour of the names of railway stations, quays, and similar places.

Further powers of regulating such matters, in particular in regard to "sky writing," are being sought in a bill which is before Parliament as the present section is going through the press.

Enquiry of the clerk to the local authority or of the police will bring information as to the nature of the local restrictions, which must be strictly complied with.

Agreements for Hoardings.

Having satisfied himself as to local by-laws, the advertiser must next negotiate with owners of property for permission to erect hoardings, etc. To affix an advertisement to another person's property without his permission, would be a trespass, and the owner would be entitled to remove it or to claim damages. The course of

such negotiations does not call for any special comment, but a convenient form of agreement for the erection of a hoarding on private property is given on page 630.

Agreements with tramway and bus companies are generally based on a guaranteed number of cars in regular use. If the company does not provide the guaranteed number the advertiser can treat the contract as broken. Such a contract would not, however, prevent the company withdrawing a certain number of cars from time to time for purposes of repair in the ordinary course of business, even though the result was that for a considerable part of the year the number actually on the streets was less than the guaranteed number.

(b) Publication in the Press.

The acceptance by a newspaper of an advertisement for insertion either generally or in a particular issue gives rise to a contract, and in the event of the advertisement not appearing the advertiser may claim damages, which, in the case of a business advertisement, would include something for estimated loss of business, but not, as a rule, any special loss due to the loss of a particular market. If there are special reasons why an advertisement must appear in a particular issue, the nature of such reasons and the probable result of the advertisement not appearing at the proper time must be fully explained to the publisher when the order is placed, and it must be made clear that he will be held responsible for such special loss in the event of the advertisement failing to appear as arranged.

Indemnity to Publisher.

Inasmuch as the printer and publisher will be personally liable to penalties or damages if anything contained in an advertisement is illegal or libellous, they may sometimes ask to be indemnified against any such consequences. Such an indemnity cannot well be refused, and it is only reasonable that the person who is really responsible for the advertisement appearing should accept full liability for its contents. It may, however, be pointed out that if the copy is illegal or defamatory on the face of it, no indemnity will be of any value to the publisher, and he will remain personally liable notwithstanding.

CHAPTER III

RESPONSIBILITY TOWARDS THE PUBLIC

AN advertisement is a message to the public intended to induce them to act in a certain way. It is therefore necessary to consider the situation produced when anyone accepts the implied invitation.

It is convenient to deal with advertisement copy

under two heads. The first is that which consists of the name of the product with commendatory phrases such, for example, as "Buy Blogg's Pills, the Best of the Bunch." The second is that which contains definite statements of fact intended to influence prospective purchasers, an example of which is "Buy Bravo Jewellery, 90 per cent pure Gold."

"Puffs."

In regard to the former little need be said. No one takes such "puffs" seriously, and a person who bought the pills would not have any ground for a claim against the proprietor on the score that the pills were not in fact the best of their kind.

"Warranties."

In a case of the latter kind, however, the statement as to the percentage of gold is a definite fact intended, and likely, to influence a prospective purchaser, and if it is false the latter can claim damages from the seller to cover any loss he may have suffered. As a rule he could only recover the difference between the price he had paid for the article and what it was actually worth. In some cases, however, his rights may be more extensive. For example, suppose one were to advertise a line of picture wire, and state that it had been tested to bear 100 lb. If someone having bought it and hung up with it a picture weighing, say, 86 lb., which fell down and was damaged through the wire breaking, he would be entitled to claim from the advertiser the loss in value of the picture.

Offer of Advice.

Another class of copy which requires careful consideration is the offer of technical advice of any kind. Although such an offer does not make the advertiser absolutely liable if the advice is wrong, he must take care that the advice is given by a competent person. Thus the tender of medical advice by someone who had neither practical nor theoretical knowledge of medicine would make him liable for any harm the enquirer might suffer in consequence of following the advice given.

Rewards.

There is a class of advertisement which offers a reward or prize to anyone who solves a puzzle or provides certain information. This, unless carefully worded, may fix the person issuing it with liability to pay the reward to everyone who solves the riddle or provides the desired information. It is, therefore, generally desirable to limit the offer in some way, as for example, to the person whose letter containing the particulars required is first opened.

General Considerations.

To sum up the matter in a few words, the issue of an advertisement is a standing offer to the public which can be accepted by anyone within a reasonable time. It is very difficult to withdraw the offer once made. Great care must, therefore, be taken to ensure that all particulars such as the price and the description of the article are correctly stated.

(Reference should also be made to Section 22—THE LEGAL ASPECT OF THE SELLING OF GOODS.)

SECTION 29

The Despatch of Goods

By J. T. Moss
Assistant Traffic Manager

CHAPTER I

INTRODUCTORY: LOCAL DELIVERIES

TRANSPORTATION has been aptly termed "the life blood of commerce," yet it is remarkable that whilst many traders devote their attention solely to the production of a perfect product, comparatively little or no attention is paid to what the Americans call "the purchasing of transportation."

It is an undeniable fact, also, that one of the chief factors contributing to high costs to-day is expensive transport, and unless the trader himself studies the problem of transportation it is very likely that he will continue to go on paying away each year unnecessarily large sums of money in carriage charges, while, at the same time, looking with dismay at his traffic costs.

The writer's purpose, therefore, is to assist the reader towards a more complete understanding of the main principles underlying the economical transportation of merchandise—whether the mode of conveyance be by road, rail or canal—and to ensure, also, that if his goods are improperly handled whilst being conveyed from one point to another, he will be in the happy position of knowing what compensation, if any, is legally due to him from the contracting carriers.

Local Carriers.

The small trader, generally speaking, is often more or less puzzled regarding the best method of despatching his small parcels traffic to the adjacent towns and villages. He knows quite well that he can take his merchandise to the local railway station with the sure and certain knowledge that it will be delivered sooner or later, yet somehow this seems to him to be a very unsatisfactory and antiquated method of distribution.

It probably has never occurred to him that the local carriers are a much more direct and cheaper means of distribution than the railway companies. Yet this is so, and it is an established fact that local carriers can handle practically any traffic within a radius of ten to fifteen miles, much more cheaply than the railway companies. In addition, the fixed rates charged when goods are sent by road carrier, eliminate office work and expense upon such complex items and calculations as "part-lots," "split-deliveries," "smalls,"

"rebates," "special" and "ordinary" rates, etc., of which more will be said anon.

Now let us see how the local carriers stand in relation to the general public as insurers of the goods handed to them for conveyance.

The Legal Position.

The position of the "common" and "private" carriers, in regard to their dealings with the general public, has been very clearly defined by the *Encyclopaedia Britannica*, to whom the writer's thanks are due for their kind permission in allowing the following extract to be reproduced.

... The law of England recognizes a distinction between a common and a private carrier. The former is one who holds himself out to the public as ready to carry for hire from place to place the goods of such persons as choose to employ him. ... A Common Carrier is subject at law to peculiar liabilities. He is bound to carry the goods of any person who offers to pay his hire, unless there is a good reason to the contrary, as, for example, when his carriage is full, or the article is not such as he is in the habit of conveying. He ought to carry the goods in the usual course, without unnecessary deviation or delay. To make him liable there must be a due delivery of the goods to him in the known course of his business. His charge must be reasonable; and he must not give undue preference to any customer or class of customers. ... In respect of goods entrusted to him, the carrier's liability, unless limited by a special contract, is, as already stated, that of an insurer. ... The law, however, excepts losses or injuries occasioned immediately "by the act of God or the king's enemies"—words which have long had a strict technical significance. It would appear that concealment without fraud, on the part of the customer, will relieve the carrier from his liability for negligence, but not for actual misfeasance. Fraud or deceit by the customer (e.g. in misrepresenting the real value of the goods) will relieve the carrier from his liability. The responsibility of the carrier ceases only with the delivery of the goods to the proper consignee. By the Carriers Act, 1830, the liability of carriers for gold, silver, etc. (in general, "articles of great value in small compass") is determined. Should the article or parcel exceed £10 in value (the Act of 1921 raises the carrier's liability to £25, operative from 1923), the carrier is not to be liable for loss, unless such value is declared by the customer and the carrier's increased charge paid. When the value is thus declared, the carrier may, by public notice, demand an increased charge, for which he must, if required, sign a receipt. Failing such receipt or notice, the carrier must refund the increased charge and remain liable as at common law. Except as above, no mere notice or declaration shall effect a carrier's liability; but he may make special contracts with his customers. ...

Classes of Carriers.

From the foregoing, it will clearly be seen that there are only two classes of carriers in the eyes of the law—common carriers and private carriers.



Photo

PERFUMERY PACKING DEPARTMENT
(Messrs. T. F. Bristow & Co., Ltd.)

Kearneys, Ltd.

Frontispiece

In practice, however, carriers do not describe themselves as "common" or "private" carriers, but usually designate themselves under such names as "bonded" or "licensed" carriers, "railway carriers," "local carriers," "special carriers," etc., according to that particular line of business in which they are at the moment employed. A brief description of their divers duties will be interesting and useful at this juncture.

LOCAL CARRIERS generally serve those outlying districts and villages which are still untouched by the railways, as well as forming an easy means of communication between near-by market towns.

SPECIAL CARRIERS are those who carry for particular trades only, such as the Fish, Fruit, or Meat Trades, etc., hence their use of the word "special."

RAILWAY CARRIERS such as Carter Paterson, Sutton, Pickford, Globe Parcels Express, etc., do an enormous amount of traffic in the receiving and forwarding of small parcels. They combine the separate parcels into large bulk consignments, thus forwarding them by rail at special low rates, and are able to convey this particular class of "small" traffic at far cheaper rates than those which the railway companies themselves could offer to the traders for each separate package.

Advantage of Railway Carriers.

The railway carriers' method of despatching small packages, whilst proving itself of great advantage to the trading community, incidentally relieves the railway companies of the tremendous amount of work which would be inseparable from the handling of enormous daily quantities of these small parcels, and proves itself to be a real source of convenience to both parties. If the trader frequently has a large number of small parcels to deliver, he will be well-advised to get into touch with some of these carriers, and see if he cannot arrange special rates with them for the conveyance of his traffic. Indeed, the writer himself has often been successful in obtaining special quotations from local carriers for the conveyance of his firm's traffic upon a scale basis, i.e. so much for the first 5 cwts., then slightly lower for the next 5 cwts., and so on.

Lists of Carriers.

Local monthly railway time tables generally contain a full list of carriers who operate locally within limited areas, so that no one can reasonably complain about the lack of facilities for finding suitable outlets for their products.

At the foot of opposite column is shown a typical specimen page taken from the Preston Local Time Table, and will serve to illustrate more clearly what is meant.

From this, it will be seen that it is quite a simple matter for a Preston trader to find a carrier who will undertake the conveyance of his traffic to the surrounding districts. If he purchases a few local tables from the neighbouring towns it becomes quite easy for him to link up the various carriers and put himself in the happy position of being

able to give delivery to any town, within a radius of 25 miles, at lower cost and with greater efficiency than the railways can offer.

Declaring and Insuring Parcels.

As regards the importance of declaring and insuring packages containing articles classified in the Carriers Act, 1830 (a list of which is given on p. 634) it will be best demonstrated if we refer to one or two important law cases¹ upon the subject.

In the case of *Blankensee v. L.N.W.R. Co.*, 1881, 45 L.T. 761, the plaintiff purchased certain articles of jewellery from the manufacturers of the value of £11 14s. 0d., but on the condition that if the price was paid within a month a discount of 15 per cent would be allowed, reducing the value to £9 19s. 0d. The price was paid by

¹ From *The Law of Carriage* (Pitman).

LIST OF CARRIERS.

The days in which the Carriers are in Preston are represented by the following numbers:—

1, Monday. 2, Tuesday. 3, Wednesday. 4, Thursday.
5, Friday. 6, Saturday.

Old Dog, Church-st.

CHIPPING, 3, 6
CHORLEY, 2, 5
RIBCHESTER, 3, 6

White Horse, Friargate.

RAWCLIFFE, 1, 3, 6
WOODPLUMPTON, 6
GT. ECCLESTON, 1, 3, 6
GARSTANG, 1, 3, 5

Blackamoor's Head.

BAMBER BRIDGE, daily
CHURCHTOWN G'tang, 6
CLAYTON GN, daily
GARSTANG, 1, 3, 5
CREGSON LANE, 1, 3, 5
POULTON-LE-FYLDE, 2, 4
WHITTLE-LE-WOODS, 1, 2, 3,
4, 5 & 6

Black Bull.

CLAUGHTON, C'TTERALL &
CHURCHTOWN, 5, 6

Waterloo Hotel

ECCLESTON, 3, 6
ROE BUCK
BRINDLE, 6
HESKETH BANK, 6

King's Head.

ST. MICHAEL'S, 3, 6

George Hotel.

BAMBER BRIDGE, daily
KNOWLE GREEN, 6
ELSWICK, 6
LYTHAM & BLACKPOOL, 1, 3,
5, 6

Derby Arms.

LEYLAND, daily
KIRKHAM, "

New Cock Inn.

BRETHERTON, 6

Waterloo, Friargate.

SOUTHPORT, ORMSKIRK,
TARLETON, 1, 3, 5
KIRKHAM, daily
LEYLAND, CROSTON, 3, 6
LYTHAM, B'POOL, 1, 3, 5, 6
LONGRIDGE, 1, 3, 5, 6
PILLING, STALMINE, 8
BRETHERTON, ECCLESTON,
ULNES WALTON, 3, 6
GARSTANG, CALDER V, 6

Allsup's Yard, Fleet-st.

GARSTANG, LANCASTER
& KENDAL, 3, 6
LONGBRIDGE, 1, 3, 4, 5, 6
LONGTON, daily
SOUTHPORT, "
ORMSKIRK, "

Dog and Partridge.

FRECKLETON, 1, 3, 5, 6

Corporation Arms.

CHIPPING, 3, 6
GOOSNARGH, 1, 3, 6

Farmers' Arms.

LONGRIDGE, 1, 3, 4, 5, 6
LONGTON, 3, 6
WALTON-LE-DALE
BAMBER BRIDGE
CLAYTON GREEN
BRINDLE
HOUGHTON
GREGSON LANE
HIGHER WALTON
WHITESTAKE, 3, 6

Daily

Manchester Parcel Express, 83 North Rd.

the plaintiff within a month. The plaintiff consigned these articles to a customer in J. by the defendant railway, without having declared their value, and they were lost in transit. The price charged to the customer exceeded the sum of £11 14s. 0d. It was held by a Divisional Court, affirming the judgment of the County Court judge, that in such cases value means the value to the consignor of the goods, which is the price his consignee has contracted to pay for the goods, and that as the price contracted to be paid was over £10 the plaintiff under the circumstances could not recover.

In *Treadwin v. G.E. Ry. Co.*, 1868, 3 C.P. 108, the defendants received as carriers a lace corporal in a gilt frame, covered with glass, being intended for an ecclesiastical exhibition, and it was enclosed in a packing case, and sent without any declaration under the Carriers Act. The value of the corporal was twenty guineas, and of the frame £1 8s. 0d. It was held that as a matter of fact the gilt frame was distinct from and not accessory to the lace, and the packing case accessory to both or to the frame only, and that the carrier, therefore, was not protected by the Carriers Act from liability as respected either the gilt frame or the packing case. Willes, J., in the course of his judgment, said—"I own that I think, looking in Secs. 3, 7 and 9 of the Carriers Act, and construing Sec. 1 by the light of those sections that what the Legislature intended was the same as what was laid down in *Wyld v. Pickford*, 1841, 10 L.J. Ex 382; and that if the principal thing carried was within the statute, then the package also was to be within it."

THE CARRIERS ACT. CLASSIFICATION OF GOODS TO BE INSURED.

- | | |
|---|--|
| <p>CLASS I.</p> <ol style="list-style-type: none"> 1. Stamps. 2. Maps. 3. Silks, or Silks wrought up with other materials where the proportion of Silk is 50 per cent of the value or more. 4. Furs. 5. Clocks. 6. Timepieces. 7. Plated Articles. 8. Coins, Gold and Silver. 9. Gold and Silver, manufactured and unmanufactured. 10. Jewellery not containing Precious Stones from or to Manufacturers or Factors. 11. Watches. 12. Gold and Silver Plate. 13. Hand-made Lace. 14. Engravings. 15. Trinkets. 16. Bank Notes. 17. Title Deeds. 18. Writings. 19. Bills of Exchange. | <ol style="list-style-type: none"> 20. Orders, Notes, or Securities for payment of money, English or Foreign. <p>CLASS II.</p> <ol style="list-style-type: none"> 1. Glass of all kinds, except as named in Class IV. 2. China from Manufacturers or Factors. 3. Precious Stones, set or unset. 4. Jewellery, not from or to Manufacturers or Factors. <p>CLASS III.</p> <ol style="list-style-type: none"> 1. Pictures and Paintings. <p>CLASS IV.</p> <ol style="list-style-type: none"> 1. Plate Glass (in plates exceeding 36 ft. superficial in size each). 2. Glass (stained). 3. Glass (silvered). 4. Glass (bent). 5. China (other than from Manufacturers or Factors). |
|---|--|

In *Henderson v. L.N.W. Ry Co.*, 1870, 39 L.J. Ex. 55, it was held that if a package containing pictures in frames exceeding £10 in value is delivered to a carrier to be carried for him without any declaration as to the value and nature of the articles, pictures and frames are to be considered as one article; and the carrier is protected by the Carriers Act from liability in respect of damage done to the frames as well as in respect of damage done to the picture itself.

CHAPTER II

DELIVERIES BY PASSENGER TRAIN

HAVING considered the transportation problem of the small trader in respect to his local deliveries, we can pass on to the next most usual link in the chain—the delivering of goods by passenger train to the more distant places.

Railway Companies Bound to Carry Perishables.

Although the railway companies will accept practically any kind of merchandise for conveyance by their passenger trains, they cannot be compelled to do so, and are bound by law to carry only a limited number of perishables. It is decreed by Secs. 1, 2 and 3 of Part 5 of the Railway Rates and Charges Order Confirmation Acts, 1891–1892, which really control the matter, that—

1. The company shall afford reasonable facilities for the expeditious conveyance of the articles enumerated in the three divisions set out hereunder (which articles are hereinafter called "perishables"), either by passenger train or by other similar service.

2. Such facilities shall be subject to the reasonable regulations of the company for the convenient and punctual working of their passenger train service, and shall not include any obligation to convey perishables by any particular train.

3. The company shall not be under obligation to convey by passenger train, or other similar service, any merchandise other than perishables.

DIVISION 1.

Milk

DIVISION 2.

Butter, fresh
Cheese, soft
Cream
Eggs
Fish—

Char
Grayling
Lobsters
Mullet, red
Oysters
Prawns
Salmon

Fish (cont.)

Soles
Trout
Turbot
Whitebait

Fruit—

Hothouse fruit
Game, dead
Meat, fresh
Poultry, dead
Rabbits, dead
Vegetables, hothouse

DIVISION 3.

Fish Fruit Ice
(except as provided in Division 2).

Parcels Rates and Arrangements Book.

Railway companies having agreed to carry practically any class of merchandise by their passenger trains, it is often advantageous to the trader to utilize this means of conveyance for the delivery of any small parcels destined for places outside the radius of the local carrier. The best

to tie them together and make one bundle of them. To take an example, let us assume that you have two parcels to forward to a customer in a town, say, 80 miles distant, and that they weigh 11 lbs. and 16 lbs. respectively. In the ordinary way, they would be chargeable as two separate packages, and the cost would be 4s., but if we tie them together into one bundle, they are chargeable as one package, and this will appreciably reduce



Photo

Kearley, Ltd.

A PACKING ROOM
(Messrs Betts & Co., Ltd.)

way to consign one's traffic by passenger train will be found by carefully studying the *Parcels Rates and Arrangements Book*, a copy of which can generally be obtained free upon application to the local passenger station. This book, which deals fully and comprehensively with the classification, charging and insurance of parcels for conveyance by passenger train, should be in the possession of everyone who has to deal with the despatching of parcels by the railway companies' passenger services.

Parcels Should be Tied Together.

Where the trader has two or more parcels for the same consignee, it will often be found advantageous

the cost of carriage. The illustration given below will explain more clearly what is meant.

	s.	d.
One Package Merchandise, 11 lbs. weight, distance 80 miles	1	6
One Package Merchandise, 16 lbs. weight, distance 80 miles	2	—
	3	6
Tied together, charge is	3	1
Difference	—	5

There are instances, however, in which the tying together of two or more packages may result in a loss instead of a gain. It is necessary, therefore,

that the trader should be careful before deciding to send them as one bundle.

Declaring the Contents.

Then there is the question of declaring the contents of the parcels when offering them to the railway company for conveyance. For instance, parcels of ready-made clothing, paper bags, soap, pattern books, boots, shoes, slippers, clogs, chocolate, cigarettes, wallpaper, etc., if sent undeclared, would be charged at the ordinary parcels scale, whereas if they were properly consigned at the owner's risk, the carriage charges would be cut by nearly 50 per cent. The following is an example—

One Box Boots, 50 lbs. weight, distance 103 miles.			
If undeclared	7	7	
One Box Boots, 50 lbs. weight, distance 103 miles.			
If properly declared at owner's risk	3	10	
Difference	3	9	

"Divisional" Rates and Regulations.

Traders whose traffic consists of perishables classified in the various divisions of Secs. 1, 2 and 3 of Part 5 of the Railway Rates and Charges Order Confirmation Acts, 1891-1892, as shown at the beginning of this chapter, should insist upon having their traffic charged at the "Divisional" rates, which are considerably lower than either the "Owner's Risk" or the "General Parcel" scale of rates. It often occurs in practice, that the railway companies have no "divisional" rates recorded in their rate books, and until these are applied for by the trader, they will continue to charge his traffic at the "Owner's Risk" or "General Parcel" scales, with the result that he is considerably overcharged for the conveyance of his perishable traffic. Hence it is a matter of no small moment that every trader should understand fully the rates and conditions attaching to his own class of traffic, before he offers it to the railway company for conveyance.

CHAPTER III

DELIVERIES BY POST

It is no idle statement to say that parcels up to 11 lbs. can, in many instances, be much more expeditiously delivered by post than by passenger train. This will become quite clear to the reader when he recognizes that, whilst the passenger delivery van has a very limited area in which to deliver parcels, the Post Office will undertake to deliver parcels anywhere.

Receipts.

Now, in keeping with the usual run of commerce, it is necessary that the trader should have a signature for everything which he despatches, in order that, if called upon, he may be in a position to prove delivery to his customer. This is easily done by filling up the official *Certificate of Posting*, getting it initialed and stamped at the Post Office, and preserving it for future reference. This method is suitable for the small trader, who has very few parcel post packets to send; but where there are many parcels sent by post, such as in a large mail order business, it is usual to have a special Parcel Post Book printed. The parcels are then entered up in this book, and the receiving clerk stamps the books with the Post Office dating stamp and adds his initials.

Official Regulation.

If any parcel is then lost, the Postmaster-General, though not legally liable, will, according to the *Post Office Guide*—

Pay compensation up to £2 for a parcel, the loss of which is proved to be due to the Post Office Authorities, provided that a receipt is taken at the time of posting, and is produced as evidence of despatch.

No compensation, however, is claimable in respect of the loss of money (including bank notes, postage stamps, etc.) sent by parcel post, registered or unregistered, or in respect of the loss of unregistered jewellery, or in respect of damage to fragile goods, such as eggs, fruit, fish, etc.

Parcels for the Channel Islands and the Isle of Man are accepted at the same rate of postage as for any other part of the United Kingdom, but senders of parcels to the Channel Islands are required, for Customs purposes, to make a declaration of contents on a form provided for that purpose.

Parcels for the Isle of Man, though liable to Customs examination, do not, however, require a declaration of contents. Eggs, fish, meat, fruit, and vegetables can only be sent by parcels post. Parcels containing glass or eggs should be packed very carefully and marked "GLASS WITH CARE"; "EGGS WITH CARE." Careless packing resulting in damage to other goods makes senders liable for penalties. Parcels when re-directed are liable for additional postage at the prepaid rate for each re-direction, unless the original and the second address are both within the delivery of the same Post Office, and that the re-direction is made not later than the day after delivery, Sundays and public holidays not being counted.

Parcels for Ireland.

As regards parcels to and from Ireland, the following extract taken from *Lloyd's Loading List*, fully explains the procedure to be followed when despatching parcels to this new self-governed country.

Parcels posted in Great Britain or the Isle of Man, and addressed to a place in Northern or Southern Ireland, must furnish, on a Customs Declaration Form, full particulars of the contents of the parcel. The sender of any parcel posted in Northern Ireland and addressed to a place in Great Britain or the Isle of Man must likewise furnish a Customs Declaration; but no declaration is required in respect of a parcel for Southern Ireland posted in Northern Ireland. As an exception, no declaration is required for parcels to and from Ireland which are sent by traders (not private individuals) who produce a certificate from any Collector

HOW TO CONSIGN TRAFFIC CORRECTLY BY GOODS TRAIN

COVER

GENERAL CONDITIONS.

1.—The Company shall not whether the carriage be by land or sea be liable for loss or injury (from whatever cause arising of or to any articles or property described in the *Carriers' Act 1830* contained in any parcel or package when the value of such articles or property exceeds £10 unless the nature and value thereof be declared and an increased charge over and above the charge for carriage be paid as compensation for the risk incurred.

2.—The Company shall not be liable for loss damage or delay of or to animals or goods booked through for carriage partly by railway or canal and partly by sea from the act of God the King's enemies fire accidents from machinery boilers and steam and all and every other dangers and accidents of the seas rivers and navigation of whatever nature or kind. In respect of animals or goods intended to be carried by Shipping Companies or other Carriers by Sea the Company are authorized as agents for the sender to contract for such carriage upon the terms of any Bill of Lading or other conditions required by the Carriers by Sea.

3.—The Company shall not be liable for loss from or for damage or delay to a consignment or any part thereof unless a claim be made in writing within three days after the termination of the carriage of the consignment or any part thereof or in the case of traffic to places outside the United Kingdom the termination of the carriage by a Railway Company of the United Kingdom nor for non-delivery of a consignment unless a claim be made in writing within fourteen days after its receipt by the first contracting Company.

4. When the Company performs the cartage the place of collection or delivery shall be the usual place of loading or unloading into or from the road vehicles.

5.—The Consignor or Consignee shall provide at his own risk and expense any power plant and labour (in addition to the Company's carman) required for loading or unloading road vehicles.

6.—The transit shall (unless otherwise determined) be deemed to be at an end (a) in the case of goods to be carted by the Company when they are tendered at the place of delivery as defined in Condition 4 or (b) in the case of goods not to be carted by the Company or to be retained by the Company awaiting order at the expiration of 48 hours after notice of arrival is delivered to the consignee or at his address or should be so delivered in due course of post or where the address of the consignee is not known at the expiration of 48 hours after the arrival of the goods at the place to which they are consigned or (c) in the case of goods consigned to a destination beyond the limits of the Company's delivery when they have been transferred to another carrier in the usual course for conveyance or delivery in which last-mentioned case the Company shall cease to be liable for any subsequent loss damage misconveyance misdelivery delay or detention arising from any cause whatsoever.

7.—After the termination of the transit (as defined in Condition 6 (a) and (b)) the Company will hold the goods as warehousemen subject to the usual charges.

8.—The Company will charge in accordance with their scale for the time being for the detention of their trucks road vehicles or sheets or for the occupation of their sidings by the trucks of private owners (a) before or after transit and (b) during transit in consequence of the Consignee not being ready to accept delivery.

9.—All goods delivered to the Company will be received and held by them subject to a lien for money due to them for the carriage of and other charges upon or expenses in connection with such goods (including charges for warehousing or keeping such goods for detention of trucks road vehicles or sheets or for siding rent during the exercise of such lien) and all goods delivered to the Company under this consignment note or otherwise will be received and held by them subject to a general lien for any moneys due to them from the owners of such goods upon any account

and in case any such lien is not satisfied within a reasonable time from the date upon which the Company first gave notice to the owners of the goods of the exercise of the same the goods may be sold by the Company by auction or otherwise and the proceeds of sale applied to the satisfaction of every such lien and expenses and charges.

10.—Perishable articles (a) refused by the Consignee or (b) not taken away from the place to which they are consigned within a reasonable time after arrival or (c) insufficiently addressed or (d) not delivered in consequence of strike or riot may be sold without any notice to Sender or Consignee and payment or tender of the net proceeds of any such sale after deduction of freight charges and expenses shall be equivalent to delivery.

11.—The Company shall not be liable for (a) loss of market (b) indirect or consequential damages (c) loss or delay due to inadequate or incorrect address or imperfect labelling (d) loss or damage caused by insufficient or improper packing (e) loss damage or delay caused by or arising out of any strike or riot (f) loss damage or delay caused by Consignee not accepting delivery.

12.—The Company shall not be liable for loss damage or delay of or to goods or a trader's truck or sheet caused by a defect in a truck not belonging to the Company unless proved to be due to the negligence of the Company's servants.

13.—The sender will be liable for all charges for carriage or otherwise including the detention of trucks road vehicles or sheets before during or after transit without prejudice to the Company's rights against the Consignee or other person.

14.—The charges for traffic that loses weight through drainage evaporation or any cause beyond the Company's control shall be calculated upon the weight of the goods when received by the Company.

15.—The Conditions and Regulations set out in the Company's Rate Books applicable to the goods carried shall be deemed to be incorporated herein.

16.—The Company's servants have no authority to vary this Contract.

17.—Goods intended for shipment will be delivered by being placed under the Dock Sheds or upon the Quay or at any other usual place of deposit for such goods and notice will be given to the Consignee or Shipping Agent of the intention so to deliver the goods and thereupon the delivery by the Company shall be deemed to be complete and the Company shall not be subject to any further duty or liability in respect of the goods. In the event of the weight or bulk of the goods being greater than can be delivered by hand the goods will remain upon the wagons at Consignee's risk and such goods will be subject to a charge for demurrage of the wagons until removed from the wagons by the Consignee. If the goods are for shipment at — the Company may at their option deliver the goods to the Dock Company who will hold the same to Consignee's order debiting him with all expenses.

NOTICE.—The Railway Company hereby give express notice that they will not, except under special conditions, undertake the carriage of gunpowder, matches, aquafortis, oil of vitriol, or other dangerous articles. Consignors of any such articles are subject to a penalty of twenty pounds unless the nature and contents of the packages in which the articles are packed be specially declared at the time of delivery of the packages to the Company for carriage, and the nature and contents of the packages be distinctly marked on the outside of the same. In addition to the above penalty, Consignors of any such articles by Railway, without first agreeing with the Company upon the special conditions above referred to, will be held accountable for any damage arising to or from any such articles, whether the damage from the same be to the goods or property of the Company or of any other person.

4. State whether the goods are to be carried at Owner's Risk or Company's Risk Rates.

5. State who is responsible for carriage—the sender or consignee.

If the instructions contained in these five items are rigidly adhered to, the trader is well on the way towards having his goods transported from point to point at the lowest ordinary legal carriage charges.

It is at this juncture, however, that the knowledge of those who have been specially trained or had practical railway experience comes in.

Classification of Goods.

How many traders, for instance, are aware that for the modest sum of one shilling they can purchase a book known as the *General Railway Classification of Goods and Merchandise*—the key to the charges of traffic by goods train? This book is indispensable to everyone who has to deal with the conveyance of goods by rail. Copies can be obtained upon application either direct from the Railway Clearing House, Seymour Street, London, or through the local railway goods agent. Examination of the classification will not only reveal the fact that different goods are chargeable at different rates, but will also show the trader how economies can be effected by bulking goods, and how the adoption of certain forms of packing reduces the cost of carriage.

For instance, hooks are classified in the General Railway Classification as follows—

Hooks.	Class.
Boat	2
Boot, Button, Hat, Coat, Reaping	3
Ceiling, galvanized iron, packed	1
Ceiling, e.o.h.p.	2
Clip, packed	1
Clip, e.o.h.p.	2
Curtain, galvanized iron	1
Fish	3
For Shunting Poles (Railway)	1
Meat, galvanized iron	1
Pot, galvanized iron	1

Now if a hook merchant in Darwen hands to the London, Midland and Scottish Railway Co. in that town, a consignment of meat hooks weighing, say, 1 cwt. for conveyance to London, and describes it on the consignment note merely as "One Case Hooks," the railway company would charge the consignment as follows—

1 cwt. @ 49s. 10d. per ton (Smalls Scale) = 6s. 2d.

But if the consignor had properly declared the consignment on his forwarding note as "One Case Meat Hooks," the railway invoicing clerk would have applied the first class rate, and the computation of charges would then have been as follows—1 cwt. @ 34s. 7d. per ton (Smalls Scale) = 4s. 8d.

Thus the consignor's omission to properly declare the traffic would cost him 1s. 6d.

Again, for paper, there are, according to the General Railway Classification, a variety of rates

applicable, and if a trader merely describes a parcel of toilet paper as "One Parcel Paper" on his consignment note, it is very likely that the railway clerk will have genuine difficulty in arriving at the correct classification term. Hence it frequently happens that overcharges arise through the fault of the senders in not declaring their traffic properly.

Traders do not seem to realize that the railway invoicing clerk can only work to the classification supplied with the goods; therefore, so long as they themselves insufficiently describe their traffic on the consignment note, incorrect rates will be charged. It is an admitted fact that the first principle of railway charges is to make the highest rate possible under the circumstances. Railway clerks do not suffer reprimands from headquarters for overcharging, but they would for undercharging, hence they always charge at the highest rate in case of doubt. From this it will be seen that it is obviously in the trader's own interests to give a full and accurate description of the goods which he wishes to send by rail. He must not, however, under any circumstances whatsoever wilfully mis-declare his traffic in order to obtain the advantage of a lower rate, otherwise he will find himself liable to very severe penalties. Sec. 99 of the Railway Clauses Act, 1845, provides that—

"If he (the consignor) give a *false account*, . . . with intent to avoid the payment of any tolls payable in respect thereof, he shall, for every such offence, forfeit to the Company a sum not exceeding ten pounds for every ton of goods or for any parcel not exceeding one hundredweight, and so in proportion for any less quantity of goods than one ton or for any parcel exceeding one hundredweight (as the case may be) which shall be upon any such carriage, and such penalty shall be in addition to the toll to which such goods may be liable."

Thus where goods are wilfully mis-declared in order to obtain the benefit of a cheaper rate, the consignor is legally liable to a fine of ten pounds, *in addition* to having to pay the proper carriage on the goods.

A railway company, whilst having no clear legal right to open any packages handed to them for conveyance, have a perfectly legal right to open packages which they *suspect* to contain dangerous goods; this gives them a loophole for opening packages the contents of which they believe to have been erroneously described.

Weight should be Plainly Declared.

The weights of the consignments forwarded should be plainly declared where possible, as this will invariably result in a more expeditious handling of the traffic, and at the same time prevent overcharges occurring.

If the weight is omitted from the consignment note the railway company will weigh the goods for the purpose of calculating their carriage charges, and their weights cannot be depended upon. A single pound in weight will make an

appreciable difference in the carriage charges as the following examples will show—

Cwt.	qr.	lb.		s.	d.
0	2	0	@ 60s. per ton	4	6
0	2	1	" " " (calculated as 0-2-14)	5	2
2	1	0	" 80s. " "	19	10
2	1	1	" " " (calculated as 2-1-14)	20	10
0	3	0	" 65s. " "	6	4
0	3	1	" " " (calculated as 0-3-14)	7	0

The explanation of these considerable differences

The company shall not be liable for any loss or delay due to inadequate or incorrect address or imperfect labelling or any loss or damage caused by insufficient or improper packing.

Apart from any legal obligation to pack one's goods carefully, however, the consignor should do so in his own interests. Nothing is more irritating to a customer than to be constantly receiving his goods in a damaged condition, and many a good connection has been ruined in this way.



Photo

Kealeys, Ltd.

BOXING TOILET SOAP
(Messrs. T. F. Bristow & Co., Ltd.)

in the charges is that the railway companies base their charges on simple fractions of a hundred-weight; in other words, weights up to 14 lbs. are charged as 14 lbs., while weights exceeding 14 lbs. but not exceeding 28 lbs., are charged as 28 lbs., and so on.

Goods Should be Well-packed.

One of the rules common to all the railway companies, and which will be found embodied amongst the "General Conditions of Carriage" printed on the back of an ordinary railway consignment note, reads as follows—

Methods of Packing Affect Charges.

There is another important factor which should not be overlooked, and that is, by adopting certain modes of packing in accordance with the requirements of the Railway Classification, the trader will be able to effect appreciable reductions in his transportation costs.

For instance, a trader who deals in Chemicals—not dangerous, corrosive, or explosive—will find that if he packs his goods in casks, iron drums, bales or bags, they will be charged at the Class 3 rates; in boxes or hampers, Class 4; and e.o.h.p. Class 5.

A paint manufacturer will discover an anomaly in the classification of his products, which are classified by the Railway Classification as follows—

<i>Paints and Colours (Pigments)—</i>	<i>Class.</i>
In Casks or Iron Drums, or in tins packed in cases or crates	2
In Cans, Hampers, Boxes, or Iron Bottles	3
In Glass Bottles in Cardboard Boxes, packed in cases	3
In Jars containing 2 galls. or under	4
In Jars protected by wickerwork	4
In Jars, e.o.h.p.	5

We observe that where paints and colours are packed in cases they are chargeable at Class 2 rates, but if packed in boxes, they are chargeable at Class 3 rates. It is hard to say what constitutes the difference between a box and a case; the dictionary describes a box as "a case to hold things," so it can be argued that there will be no mis-declaration if a paint manufacturer always consigns as "cases" goods packed in boxes or cases, in order that he may get his consignments through at the lower rate.

Again, a dealer in earthenware will notice that the Railway Classification provides that where china is packed in casks or crates, Class 2 rates will be charged; in hampers, Class 3; and in boxes or cases, Class 4.

Indeed, one could go on filling page after page with examples similar to the above, and of the economies to be effected by packing in accordance with the requirements of the railway companies, but the foregoing must suffice.

Traders should obtain a copy of the current issue of the General Railway Classification for themselves, and study it well, paying particular attention to the requirements of the railway company with regard to the class of goods they handle.

Goods Should be Fully Addressed.

To pack your goods carefully and securely, and then omit to give proper attention to the addressing of them, is obviously to defeat your aim. At first sight the addressing of goods may appear to be a trifling matter, yet it is one of the very first importance, for so much depends upon it. A consignment with an insufficient address is like a parcel wrongly addressed—it is sent to a wrong destination. Then again, seeing that the railway company cannot be held responsible for any loss or delay due to inadequate or incorrect address or imperfect labelling, it is of the utmost importance that goods should be fully addressed before being handed to a railway company for conveyance.

In cases where there are two or more places possessing the same name, the consignor should clearly state on the consignment note which place he wishes his goods to go to. Let us take a specific illustration.

A bale of woollens intended for New York was

addressed "Per S.S. So-and-So," a boat loading at the end of the week.

Unfortunately, there was another boat of the same name sailing for India two days earlier, and the carriers delivered on board this vessel. The heavy loss involved fell on the sender, the County Court Judge holding that the name of the dock from which the vessel sailed should have formed part of the address.

Insufficient Addresses Increase Charges.

Then again, an insufficient address almost always results in increased carriage charges. As for instance—

If a parcel or other consignment is addressed to London, while intended for a suburb, such as Wandsworth, Wimbledon, Hampstead, and so on, the railway officials will charge extra carriage from the London terminus to the local terminus. Thus a parcel from Scotland addressed to "High Street, Hampstead, London," will come under the rates for over 300 miles—which obviously covers Hampstead as well as London. Yet the company will claim that carriage was charged to London only, and demand an extra.

It is the same in the case of villages near big towns—the village of A may be quite unknown to all but natives of the place, and the sender of a parcel to A, to save the company trouble, may add "near Manchester." If so, his kindness will cost the consignee an extra payment—the sender may think that he has paid carriage through to A, but the company, in return for his consideration, will demand an extra payment.

In all such cases, *the County* should be given, not the nearest big town—thus—

A. Lancashire.

To sum up, all parcels should be fully and carefully addressed, as the sender is legally responsible for any *bona-fide* mistakes made by the carriers through any defect in his instructions.

A copy of a notice issued by the Railway Clearing House on the addressing of goods is given on the next page.

CHAPTER V

HOW TO SAVE BY BULKING GOODS

WE will now deal with the subject of bulking goods in order to reduce traffic costs to a minimum.

To begin with, we will consider Rule 12 of the General Railway Classification of Goods. Under this rule considerable savings can be effected. It provides for the charging together of small consignments of merchandise as follows—

When goods charged as one consignment over the railway (charges being paid by one trader) involve separate

NOTICE.

ADDRESSING OF GOODS.

The Railway Companies in Great Britain hereby give notice that the following amended Regulations in regard to the Addressing of Goods will be adopted by the Companies on and from 13th February, 1922.

1. Except as otherwise hereinafter provided goods will only be accepted for conveyance when each article or package—
 - (a) Is fully addressed, or
 - (b) Bears a legible distinguishing mark together with the name of the destination station on a label (on the letter-card principle, showing inside the name and address of the Consignee) which may be opened by the Railway Company if and when occasion requires.
2. Where there is more than one article or package of the same or similar description for the same Consignee, the following system of labelling will be permitted, i.e.—

Number of articles or packages
where the aggregate weight of the
consignment is less than 2 tons.

- | | | | |
|--------------------|---|---|--|
| Up to 10 | . | . | Each article or package to comply with the provisions of clause 1 above. |
| Above 10 up to 100 | . | . | One article or package in every five to comply with the provisions of clause 1 above (with a minimum of ten articles or packages labelled), but each label must also show the total number of articles or packages in the consignment. |
| Over 100 | . | . | One article or package in every ten (with a minimum of twenty articles or packages labelled) to comply with the provisions of clause 1 above, but each label must also show the total number of articles or packages in the consignment. |

NOTE.—This section does not apply to traffic with Ireland, which must be addressed in accordance with the provisions of clause (1).

3. Bars or rods, plates or sheets of iron, steel, etc., metal forgings, castings, chains, and other similar traffic that cannot be labelled by adhesive or "tie-on" labels, must have the Consignee's name and address painted, stencilled, or otherwise legibly and durably shown thereon, *subject to the provisions of clause 2.*
4. Metal bars, rods, tubes, and other similar articles of dimensions not affording a suitable surface for painting or stencilling (as indicated in clause 3 above) should be bound by wire into bundles convenient for handling, and have wooden, metal, or other durable tallies affixed by wire, addressed to comply with the provisions of clauses 1 and 2 above.
5. Hides, skins, and pelts, or other traffics carried loose, must have labels, or wooden, metal, or other suitable tallies affixed, addressed to comply with the provisions of clauses 1 and 2 above.
6. Every label or tally must be securely fastened to the articles or package.
7. In every case the full name and address of Consignee must be shown on the consignment note, together with a full description of the distinguishing marks shown on the articles or packages.

NOTES—

- (1) *Exemptions.*—The following traffics will for the present be exempt from these regulations—
 - (a) Returned empties, when branded with the owner's name and address.
 - (b) Any general merchandise of the same or similar description carried in consignments of one ton or upwards to the same Consignee, necessitating the exclusive use of a wagon.
 - (c) Articles or packages of precisely the same size, description and quality in consignments of two tons and upwards from the same sender, for one destination station for two or more consignees.
 - (d) Export and Import Goods conveyed in through trucks direct to ship, and *vice versa*.
- (2) *Explosives and other Dangerous Goods.*—The foregoing regulations are not applicable to Explosives, Inflammable Liquids, and certain Dangerous Goods for which conditions as regards addressing are specifically provided in the General Railway Classification of Goods.

NOTICE.—It is desirable that senders should place an addressed label inside packages so as to ensure delivery in the event of the outer label becoming defaced or detached.

RAILWAY CLEARING HOUSE,
January, 1922.
T.S.

BY ORDER.

deliveries in portions not exceeding 3 cwt., the following additional charges are made—

In London :

3d. per cwt., minimum 4d. each separate cartage.

At stations other than London :

2d. per cwt., minimum 3d. each separate cartage.

Goods delivered outside the prescribed boundaries are subject to extra cartage charges in addition to the above.

An Example.

Let us assume, as an example of the application of this rule, that a London trader consigns six small parcels of goods to Glasgow, and that these are chargeable at the 2nd class "small" rate of 53s. 9d. per ton. If he omits to instruct the railway company to "bulk" for charging purposes, they will naturally charge each consignment separately at the "small" parcel scale; but if he inserts a remark on the consignment note requesting them to charge the consignments as one lot, and to debit him with split deliveries, a large percentage of the carriage charges will be saved. It will be seen from the following illustration that no inconsiderable saving can be effected by judicious bulking.

COMPARISON OF CHARGES ON TRAFFIC FROM LONDON TO GLASGOW AT THE RATE OF 53s. 9d. PER TON.

Customer.	Weight.	If charged separately, Cost would be:	Split Delivery Charges.
	cwts. qrs. lbs.	s. d.	£ s. d.
A	0 1 14	3 8	4
B	0 2 0	4 4	4
C	1 0 0	6 10	4
D	1 2 0	9 8	5
E	2 0 0	12 4	6
F	2 3 0	16 4	8
	8 0 14	53 2	2 7
Carriage as one lot at the heaviest rate of 96s. 1d. per ton £1 19 —			
	TOTAL		£2 1 7

There are instances, of course, in which the charging together of two or more consignments may result in a loss instead of a gain. It is necessary, therefore, that a careful investigation should be made before the method is decided upon. For example, if two consignments, each weighing one cwt. are bulked at the rate of 10s. 6d. (small) per ton, the cost would be 3s., plus two split delivery charges of sixpence, making a total of 3s. 6d. But if they are consigned separately, the cost would be 3s. 4d. However, it is only in very rare instances that bulking goods for charging purposes results in a loss, and the trader will save a good deal of time, trouble, and expense, if, after carefully working out his system for despatching parcels by rail, he sends a general instruction to the railway authorities in a form similar to the following—

In future please send all our traffic, subject to the small parcels Scale, charged together as one lot, and debit us

with all split delivery charges in accordance with pages 2 and 3 of the General Railway Classification of Goods.

By this means it is possible to ensure that all traffic will be charged at the lowest rates.

Bulking Large and Small Consignments.

Further economies may be effected by applying the principle given under Rule 13 of the Classification, which provides for the charging of small consignments with large ones. This important rule reads as follows—

(a) Rates recorded for a minimum weight higher than 3 cwt. may be charged on the goods to which they are applicable in a mixed consignment, providing the weight of the whole consignment is up to or exceeds the highest minimum weight attached to any of the rates charged, and the whole of the charges are paid by one trader.

(b) Each description of goods is subject to the Scales for small parcels and the regulations thereunder.

The following will illustrate this—

TABLE SHOWING HOW LARGE AND SMALL CONSIGNMENTS MAY BE BULKED.

Traffic.	Weight.	Rate applicable.	Charges are made on :
Flour	T. c. q. lbs. 1 0 0 0	Class C (min. 2 tons)	Actual weight
Oilcake	0 10 0 0	Class C (min. 2 tons)	Actual weight
Confectionery	0 3 0 0	Class 2	Small scale or, if cheaper, two or more descriptions may be combined and charged at the highest rate applicable to any of the portions so combined
Paper	0 3 0 0	Class 1	
Extract of Meat	0 2 0 0	Class 5	
Hardware	0 2 0 0	Class 3	
	2 0 0 0		

It will be seen that where a trader has a consignment of the aggregate weight of 2 tons, and half of this weight consists of traffic classified in Class C, he may have the 2 ton rate applied to the actual weight of the lower class traffic. One or two specific examples will be sufficient to show the reader how to exploit this rule to its fullest advantage in practical everyday transactions.

Suppose, for instance, that a Darwen trader desires to consign three cwt. of paint and colours to Falmouth, which are chargeable at the 2nd class "small" rate of 70s. 6d. per ton. He wishes this particular consignment to be conveyed at the minimum of expense, but with the maximum of efficiency. He is doubtful how this can be done, as he had only one consignment to despatch to Falmouth. Fortunately, he finds that he has a 30 cwt. consignment of paints and colours for Bristol, so instead of letting his traffic go to some local station for transfer, he proceeds to consign both lots on one consignment note and inserts the remark: "Charge Falmouth traffic to Bristol, send on paid and recharge," thus securing a lower rate for his goods, combined with an increase of efficiency in the delivery.

Let us give an illustration.

COMPARISON OF CHARGES ON TRAFFIC FROM DARWEN
TO FALMOUTH AT THE RATE OF 70s. 6d. PER TON.

Weight.		If Charged separately, Cost would be :	Carriage.
3 cwt.	Darwen to Falmouth (Ordinary Charge)		£ s. d. 1 3 2
3 cwt.	Darwen to Bristol	@ Special Rate s. d. 59/7 would be 8 11	18 1
3 cwt.	Bristol to Falmouth	@ 27/4 per ton 9 2	

Showing saving of 5/1.

Again, let us assume that the railway rates in operation between stations A. & B. for bicarbonate of soda are as follows—

Bicarbonate of Soda—

	s.	d.	
In Casks or Bags	40	2	(Ordinary Class C Rate)
(In 2-ton lots)			
In lesser quantities	54	8	(Ordinary Class 1 Rate, less terminal diff.)
In Boxes, Crate or Hampers	69	5	(Ordinary Class 2 Rate.)
(1-ton lots)	59	7	(Special Rate.)

A trader has two consignments consisting of 35 cwt. bicarbonate of soda packed in casks and 15 cwt. packed in boxes, to forward from A. to B. If he consigns both lots separately the railway company would calculate the carriage charges at the highest possible rates, and their calculations would work out as follows—

Bicarbonate of Soda, in casks.	35 cwt.	@ 54/8 (Ordinary Class 1 Rate, less Terminal differences)	£ s. d. 4 15 8
Bicarbonate of Soda, in boxes	15 cwt.	@ 69/5 (Ordinary Class 2 Rate)	2 12 1
	50 cwt.	TOTAL	£7 7 9

But if he inserts a remark on the consignment note requesting them to charge both lots as bulked consignments, he will obtain the advantage of the lower rates, and the carriage charges would then be calculated as follows—

Bicarbonate of Soda, in casks 35 cwt.	@ 40/2 (Class C Rate)	£ s. d. 3 10 3
" " in boxes 15 cwt.	@ 59/7 (SPECIAL Rate)	2 4 8
50 cwt.	TOTAL	£5 14 11

It will be seen from what has been said in this chapter and the illustrations given, that a considerable saving can be effected by those traders who take an intelligent interest in the intricate but interesting problem of "bulking" as applied to rail transport.

CHAPTER VI

COMPANY'S OR OWNER'S RISK— RECEIPTS—STOPPAGE IN TRANSIT —THE RECEIVER'S POSITION

EXCEPTING for one or two classes of merchandise, to which special rates and conditions are applicable, such as explosives, goods of unusual bulk or length, etc., there are two rates for the carriage of every class of goods handed to a railway company for conveyance. One is known as the "Company's Risk" and the other as the "Owner's Risk" rate. Now the conditions of carriage in regard to these two rates naturally vary considerably, so that it is most important that the trader should know, at the time of sending his goods, who accepts the responsibility for any loss or damage that may occur during the transit.

Company's Risk.

Goods forwarded at "Company's Risk" are conveyed solely at the risk of the railway company, who, undertaking the ordinary liability of a carrier, are responsible for whatever may happen during the transit.

Owner's Risk.

But before a railway company will consent to carry a trader's goods at the "Owner's Risk" rates, an undertaking in writing has to be given that, as a set-off against the concession, the trader will relieve the railway company of all liability for any loss, damage, misconveyance, delay, mis-delivery, or detention that may occur during transit, except upon proof that such loss, damage, misconveyance, delay, mis-delivery or detention arose from wilful misconduct on the part of the company's servants. The signing of an "Owner's Risk" consignment note gives the undertaking required for goods conveyed at "Owner's Risk" rates, and unless the trader signs a "General Owner's Risk" agreement note for the whole of his traffic, or alternatively, hands separate "Owner's Risk" consignment notes for each consignment he sends out, he can still hold the railway company responsible as common carriers for any loss, damage, or delay that may occur, even though he has been charged only "Owner's Risk" rates for the conveyance of his goods.

The "Owner's Risk" rate offers a great inducement to the trader to accept the responsibility, inasmuch as by having the goods carried at this rate, he will effect a considerable saving in the cost of carriage—approximately 15 to 20 per cent lower than the company's risk rates. This is a great reduction to the trader who does a big business with the railway companies, but he should remember, before signing an "Owner's Risk" agreement note, that it is only in exceptionally

rare instances that he is able to fulfil the conditions required of him under the agreement when he claims for loss or damage.

Obtain Signature from Railway Company.

The trader should obtain a signature for each consignment which he forwards, so that in the event of a dispute, the railway company cannot deny receipt of the consignment. It is only natural to expect that those traders who neglect to ask for a signature for goods sent out must, at some future time, find themselves in trouble. How can they prove, in case of a dispute, what quantity actually was handed to the railway company?

As a result, the railway company will refuse to entertain any claim, however legitimate, that may be made upon them. Thus it is most important that signatures should be obtained for everything sent out.

Stoppage in Transit.

A very important right which the seller of goods upon credit can exercise, is the right of stoppage *in transitu*. If he finds out, whilst the goods are in course of transit, that the buyer is unable to pay for them, he can, by notice to the railway company, stop delivery of the consignment and retake possession. Justice Story put the law very succinctly when he said—

Where goods are shipped on a credit by seller to consignee and the consignee or buyer becomes insolvent, or has failed before their arrival, the law, in order to prevent the loss which would otherwise happen to the seller or sender, allows him in many cases to countermand the delivery, and at or before the arrival of the goods at the place of destination, to cause them to be re-delivered to himself or some other person appointed to act for him. This is usually called a stoppage *in transitu*. In such a case the delivery to the carrier is supposed to vest the title to the property in the buyer, subject only to his right of divestment or stoppage *in transitu*. The right, however, is not an unlimited right. It exists only in cases where all the following circumstances concur: (1) where the goods are sold on credit; (2) where the consignee is insolvent; (3) where the goods are still in transit, and have not been delivered to the consignee; and (4) where the buyer has not yet parted with the ownership to any *bona-fide* purchaser without notice under him. Each of these requisites is important enough to deserve a separate discussion in its proper place, and especially the question under what circumstances the transit is, or is not, at an end, which is full of nice distinctions and curious learning.

If at any time it should become necessary to stop delivery of goods already in the hands of the railway company, the notice need not take any particular form; indeed it can be given verbally—over the telephone, for instance—or in writing.

The point is fully dealt with in Sec. 46 of the Sale of Goods Act, 1893,¹ and the most important

¹ "The unpaid seller may exercise his right of stoppage *in transitu* either by taking actual possession of the goods, or by giving notice of his claim to the carrier or other bailee or custodian in whose possession the goods are. Such

point to bear in mind is the question of time. If you are sending goods from Yorkshire to London, and wish to stop delivery, you must bear in mind the fact that the delivery would almost certainly be made within twenty-four hours.

If the goods were handed to the railway company or other carrier, at nine o'clock on a Tuesday morning, no legal claim could be based upon a notice of stoppage if given at nine o'clock on the Wednesday morning.

The sender must remember that more than one carrier may be concerned in the delivery and so sufficient time must be allowed for communication between all such parties.

In such cases as these, it is advisable to ask the railway company, or other carrier, to acknowledge due receipt of the notice for "stoppage *in transitu*"—if this is received, the sender's legal position is fairly safe. It may be as well to mention that all expenses incurred must be paid by the sender, and also that the carrier is certain to ask for a signed guarantee, holding the carrier free from all legal claims that may arise through the non-delivery of the goods.

How to Journalize Inwards Goods.

Just as the journal in book-keeping records the commercial transactions of the day, in chronological order, thereby facilitating their transfer to the ledger, so does the "Goods Received" Journal record the daily transactions as regards inward goods. It is an important book as it facilitates the checking of railway accounts and the tracing of any particular consignment.

It is very important that all goods received should be entered in this book; and the specimen page given at the foot of page 646 will be found applicable to practically any class of business.

The receiver of the goods should, if the works be a large one, transfer these entries into a duplicate book ruled something after the following style—

MANUFACTURERS, LTD.		No. _____
Date _____		
Received from _____		
Per _____ Sheet No. _____ Invoice No. _____ Carriage _____		
How signed for _____		
Net weight received _____		

notice may be given either to the person in actual possession of the goods or to his principal. In the latter case, the notice, to be effectual, must be given at such time and under such circumstances that the principal, by the exercise of reasonable diligence, may communicate it to his servant or agent in time to prevent a delivery to the buyer."

"When notice of stoppage *in transitu* is given by the seller to the carrier, or other bailee or custodian in possession of the goods, he must re-deliver the goods to, or according to the directions of the seller. The expenses of such re-delivery must be borne by the seller."

goods were delivered the furniture was tied up with bits of string." The defence admitted that they had no doubt that it was a perfectly *bona-fide* claim, but as they had been unable to come to a settlement with the Llanelly and Mynydd Mawr Railway Company they could do nothing. Judge Smyly: "The best I can do for this unfortunate plaintiff is to non-suit him, which will leave it open to him to bring another action against the other company, if he wishes to."

CHAPTER VII

DAMAGED GOODS—WHAT COURSE TO TAKE

A PROBLEM often confronting the trader is, should he or should he not accept goods which have been tendered to him in a badly damaged condition? In the majority of cases the answer is "Yes! accept them and put in a claim for the amount of the damage done"; in others, "No! refuse to accept them and sue the railway company for the full value of the consignment."

It all depends, of course, upon the circumstances prevailing at the time, and the extent of the damage done. If the goods are so badly damaged as to be beyond repair, the better way will be to reject them, but if the damage be such that it can easily be repaired or compensated for, the best thing one can do is to accept them under a qualified signature.

Damaged goods, it should carefully be noted, should only be refused as a last resource, because after the expiration of forty-eight hours from the time of arrival at the receiving station, the responsibility of the railway company changes from that of an insurer to that of a "warehouseman," and the difference is very great. A warehouseman is liable for loss or damage only when it can be shown that such loss or damage arose from negligence, hence the trader is only courting more trouble by rejecting the goods.

Who Should Sue and Where.

Before any legal proceedings for the enforcement of a claim can be successfully taken, the claimant must prove that he is the legal owner of the goods, and this, to a great extent, will depend upon the conditions of the contract of sale between the sender and the consignee. Now in a general sense, the consignee is the legal owner of the goods immediately they have been handed to the railway company, for it is specifically provided by Sec. 32 (1) of the Sale of Goods Act, 1893, that where, in pursuance of a contract of sale, the seller is authorized or required to send the goods to the

buyer, delivery of the goods to a carrier, whether named by the buyer or not, for the purpose of transmission to the buyer is *prima facie* deemed to be a delivery of the goods to the buyer.

The proper person to sue the railway company, therefore, is the consignee, and it does not matter who is responsible for the carriage charges. Of course, if a special contract is made between the sender and the consignee that the goods be delivered at their place of destination, or if they are forwarded on approval, the liability will remain with the consignor until the goods have actually passed into the consignee's possession. In this case, the proper person to sue the railway company will be the consignor.

In practice, however, it often occurs that when goods are received in a damaged condition, the consignee will give the railway company a properly qualified signature, invite their inspection of the damage, and then ask the senders to claim upon the railway company for the amount of damage done.

This is, undoubtedly, the best course the consignee can take, because the sender is naturally in a better position to deal with the matter, and the courts will recognize him as the agent of the consignee should the claim be fought out in the County Courts.

Then again, assuming that the consignee does put in a claim against the receiving station; it is very probable that he will not be fully conversant with the exact conditions surrounding the despatch of the consignment, and this absence of information will hamper him considerably. In addition, it should not be overlooked that the receiving station—if the goods have passed over the lines of two railway companies—can, if it chooses, decline the claim on the grounds that it is not the contracting company.

Damages Recoverable.

Generally speaking, the damages recoverable upon a consignment which has been badly handled, or delayed in transit, depend chiefly upon the loss resulting from the breach of contract on the part of the railway company.

Delay in Transit.

If goods are delayed in transit, the railway company is bound to recompense the owner for the loss occasioned thereby, and the value of the consignment will be taken as the value of the consignment at the place of destination, as distinct from the station at which they were originally handed to the railway company.

In *Wilson v. Lancashire & Yorkshire Railway Company* (1861), the plaintiff, a cap manufacturer, sued the railway company for damages for loss of market, sustained through the delay in the

delivery of a consignment of cloth. The cloth was delivered to him after the season for making it into caps had passed and plaintiff claimed damages in respect of the delay.

It was held that the plaintiff was entitled to recover as damages the amount by which the value of the cloth was reduced by the "loss of season," but not loss of profits. In his judgment, the judge said: "Two questions of law were raised on the part of the defendants. The first was

suppose a tradesman at a fashionable watering-place sends an order to a warehouseman in London for a quantity of ribbons or other fancy goods, and they are delivered to a carrier so that they ought to reach him at the beginning of the season, and through the negligence of the carrier their delivery is delayed until the season is over, so that the opportunity of offering them for sale is lost, and, as their novelty or fashion is gone, they remain on hand materially diminished in value, would it not



Photo

Kealeys, Ltd.

PACKING GOODS FOR RAIL AND MOTOR TRANSPORT
(Messrs. Burgoyne, Burbidges & Co., Ltd.)

whether, in a case like this, of an action against a common carrier for negligence in not delivering goods entrusted to him within a reasonable time, the consignee has a right to claim in the shape of damages the profit he would have made upon the sale of them if they had been delivered in proper time. We are all of opinion that he is not. Then comes the other question, whether he is entitled to recover the difference between the value of the goods to him if they had been delivered in proper time, and their value at the time when they were actually delivered. I am of opinion that the consignee is entitled to recover such difference in value. If it were otherwise, great injustice would be done; for instance—to put a familiar case—

be unjust if the carrier were not made liable in damages for the loss which thus resulted from his negligence?" (Pitman's *Law of Carriage*.)

Complete and Undeniable Proof Required.

From the railway companies' point of view it is a very difficult thing for them to determine the fairness of a claim for damage, and unless the claim is backed up by complete and undeniable proof, the trader stands very little chance indeed of succeeding with his claim.

For instance, the railway company, presuming the claim to be a legitimate one, might argue that

the invoice price of the goods damaged is all that they can be made to pay for.

Now unless the trader knows how to meet this argument by replying that he can easily recover the full market price in a County Court action, the railway company will certainly deprive him of legal rights. As a specific example, take the case of *Collard v. S.E. Railway Co.* (1861). The plaintiff sent hops in bags from Kent to London by the defendants' railway for the purpose of delivery to the buyer, a hop-dealer. The hops were detained by the defendants several days, and received some damage from water, and the buyer refused to accept them. The plaintiff dried the hops, but when they were fit for sale the price had fallen in value. Independently of that, the stained portion of the hops deteriorated the marketable value of the whole, although for the purpose of brewing the value of the bulk was unaffected. It was held that the plaintiff was entitled to recover, as damages from the defendants, the differences in price of the amount of deterioration in market value, and was not confined to the value of the parts actually damaged, although the defendants had no notice that the hops were sent for the purpose of sale, and not for use.

Now what would have happened had the plaintiff not known what his legal rights were? Most probably the railway company would have declined his claim or else argued that they could only be held responsible for the invoice value and under no circumstances whatsoever could they be made to pay more.

Loss or Theft.

If goods are accepted and conveyed by the railway company at the company's risk rates, the railway company assume the status of an insurer, and as such, they are responsible for the absolute safety of the goods which they carry. If any of the goods so carried are lost or stolen, the railway company must compensate the owner for the amount of the loss thus incurred, providing, of course, that it was not due to (1) the Act of God, (2) the King's enemies, (3) contributory negligence of the consignor, (4) inherent vice of the thing carried.

In addition to these exceptions, however, Clause 3 of the general conditions common to all railway consignment notes further provides that:—

The company shall not be liable for loss from or for damage or delay to a consignment or any part thereof unless a claim be made in writing within three days after the termination of the carriage of the consignment or any part thereof or in the case of traffic to places outside the United Kingdom the termination of the carriage by a railway company of the United Kingdom not for non-delivery of a consignment unless a claim be made in writing within fourteen days after its receipt by the first contracting company.

Necessity for Early Claim.

The best thing to do, therefore, when any goods have been lost or pilfered in transit, is to submit a claim to the railway company at the earliest possible moment, in order that the claim cannot be refused on the grounds that "the conditions in Clause 3 have not been complied with, and that therefore no liability can be admitted."

In the case of *Vernon & Sons v. Midland Railway Company*, plaintiffs, who were millers at Victoria Docks, claimed from the railway company the value of 420 empty flour sacks consigned to them from Bedford and not delivered, and alternately damages for their conversion. Defendants denied liability, relying on a clause in the consignment note which relieved them from liability for any claim in respect of loss of goods unless notice was given within fourteen days of the date of the despatch of the goods, while the plaintiffs had made no claim until two months after that date. It was contended on behalf of the millers that the clause was unjust and unreasonable within the meaning of Sec. 7 of the Railway and Canal Traffic Act, 1854. The facts of the case were that on 3rd February, 1917, plaintiff's agent at Bedford consigned the sacks for transit to the plaintiffs by the Midland Railway. These sacks were not received. The first the plaintiffs heard of them was on 28th March, when they received an account from their agent at Bedford for his services in collecting and forwarding the sacks. Correspondence ensued, and in July, 1917, plaintiffs made a formal claim. The Common Serjeant said that the only question with which he had to deal was whether the latter part of Clause 3 of the consignment note was just and reasonable. The plaintiffs said that the clause was unjust because it threw upon them the burden of giving notice of something about which they did not know. However, their agent or customer who consigned the empty sacks had the knowledge, and the knowledge of the agent must be taken to be that of the principal. The clause in question had been in existence for a number of years, and in a good many cases had not been strictly insisted upon. As a general rule agents did not give notice of the despatch of sacks, and the evidence showed that they did not realize the importance of doing so. However, it was done sometimes, in the ordinary course of business, so that it was fair to assume that such course of business was not burdensome. Agents who collected sacks had to give notice of the despatch when forwarding to their principals their bill of charges. In his opinion (looking at the relation of the parties, the course of dealing, and approaching the contract from a business point of view), the words must be understood to mean that notice must be given within fourteen days of the date on which they were consigned to the railway

company for despatch. If that was the true meaning, he could see nothing unreasonable in requiring the consignee to give such advice as asked. He found, as a fact, that the clause was just and reasonable; and judgment was entered for the defendants.

Miscellaneous Points.

There still remain to be considered a few points respecting claims for damage, which do not strictly come within the foregoing. For instance, the consignee might have made a "special" contract with the railway company for the conveyance of that particular consignment of goods, and he will therefore be bound by its conditions. It should be noted, however, that the conditions cannot be held binding upon the consignor unless he has signed the contract, for it is specifically provided by Sec. 7 of the Railway and Canal Traffic Act, 1854, that—

"... no special contract between such company and any other parties respecting the receiving, forwarding, or delivering of any Animals, Articles, Goods or Things as aforesaid shall be binding upon or affect any such Party unless the same be signed by him or by the Person delivering such Animals, Articles, Goods, or Things respectively for carriage."

"Owner's Risk" Consignment Note.

Thus if a trader forwards goods at the "Owner's Risk" rates, but does not sign the Owner's Risk consignment note—a copy of which is given in the inset—the railway company are still liable for the safe conveyance of the traffic although carried at "Owner's Risk" rates. It is only in exceptionally rare cases, however, that damages are recoverable on goods which have been forwarded at owner's risk, and unless there has been a clear breach of contract on the part of the railway company, such as by forwarding the goods by a different route from that contracted for, the claimant stands little chance of succeeding with his claim.

Goods Passing Over other Lines, Etc.

Sometimes, even where goods have been carried at the company's risk, the railway company will refuse to admit liability for a claim, on the grounds that they are not responsible for any loss or damage that may occur whilst goods are passing over another company's lines, or where goods have been booked through by rail and sea. The courts, however, have frequently held that where goods are forwarded at the company's risk, the liability of the railway company starts from the moment the goods are handed to them, and continues until the consignment is actually delivered to the consignee, or, in the event of his refusal to accept them, until forty-eight hours after the expiration of the transit. Sec. 14 of the Regulation of Railways Act, 1868, provides that—

"Where a company by through booking contracts to carry any animals, luggage, or goods from place to place,

partly by railway and partly by sea or partly by canal and partly by sea, a condition exempting the company from liability for any loss or damage which may arise during the carriage of such animals, luggage, or goods by sea, from the act of God, the king's enemies, fire, accidents from machinery, boilers and steam, and all and every other dangers and accidents of the seas, rivers, and navigation of whatever nature and kind soever, shall, if published in a conspicuous manner in the Office where such through booking is effected, and if printed in a legible manner on the receipt or freight note which the company gives for such animals, luggage, or goods, be valid as part of the contract between the consignor of such animals, luggage or goods and the company, in the same manner as if the company had signed and delivered to the consignee a bill of lading containing such condition. For purposes of this section the word 'Company' includes the owners, lessees or managers of any canal or other inland navigation."

Sec. 12 of the same Act further provides that—

"Where a railway company, under a contract for carrying persons, animals or goods by sea, procure the same to be carried in a vessel not belonging to the railway company, the railway company shall be answerable in damages in respect of loss of life or personal injury, or in respect of loss of or damage to animals or goods in like manner, and to the same amount as the railway company would be answerable if the vessel had belonged to the railway company, provided that such loss of life or personal injury, or loss or damage to animals or goods happen to the person, animals or goods during the carriage of the same in such vessel, the proof to the contrary to be upon the railway company."

From the foregoing it is obvious that the railway company cannot legally deny their responsibility for the safe conveyance of goods which have been booked through by rail and sea, or where goods pass over another company's lines. Indeed the trader should never accept the railway company's refutation of his claim as final, i.e. providing he is confident that his claim is a legitimate one. A strong letter to the effect that "unless the claim is paid within fourteen days from the date of this letter, I shall have no option but to place same in the hands of my solicitors and instruct them to take steps for the recovery of the loss" will often work wonders, and it would astonish the average trader if he knew the number of claims that have been settled by the railway companies when under the shadow of a threatened County Court action.

How to Claim for Goods Damaged in Transit.

Dissatisfaction at the impossibility or extreme difficulty of obtaining adequate compensation for loss or damage of goods in transit over the railways is no new thing. Yet in these days of high carriage charges and screwing up of railway organization, the trouble is naturally aggravated.

It must be admitted that the fault is often with the consignors of the packages, the reason for this being that they do not sufficiently protect themselves at the outset.

Apparently damage *will* happen whatever packing precautions are taken, so it behoves every firm to put themselves into the position of being able to make effective claims under the various regulations covering this section of carriage.

CONSIGNMENT NOTE for Goods to be carried at Owner's Risk.

NUMBER OF THIS NOTE.

The.....Railway Company hereby give notice that they have alternative rates for the carriage of the undermentioned goods, at either of which rates the goods may be consigned at the Sender's option ; (1) the ordinary rate, and (2) a lower rate charged upon the terms of the following Special Contract.

To the.....RAILWAY COMPANY.....Station.....19.....

Receive the undermentioned goods for carriage at the lower rate subject to the condition that the Company shall not be liable for loss, damage, misconveyance, misdelivery, delay, or detention of or to such goods or a Trader's truck or sheet (if any) containing or covering them except upon proof that such loss, damage, misconveyance, misdelivery, delay, or detention arose from the wilful misconduct of the Company's servants. But nothing in the aforesaid Condition shall exempt the Company from any liability they might otherwise incur in the following cases of non-delivery, pilferage, or misdelivery, that is to say—

- (1) Non-delivery of any package or consignment fully and properly addressed, unless such non-delivery is due to accidents to trains, or vessels, or to fire.
- (2) Pilferage from packages of goods protected otherwise than by paper or other packing readily removable by hand, provided the pilferage is pointed out to a servant of the Company on or before delivery.
- (3) Misdelivery where goods fully and properly addressed are not tendered to the Consignee within twenty-eight days after despatch.

Provided that the Company shall not be liable in the said cases of non-delivery, pilferage, or misdelivery on proof that the same has not been caused by negligence or misconduct on the part of the Company or their servants.

This Agreement shall be deemed to be separately made with all Companies or persons who shall be Carriers for any portion of the transit (herein respectively referred to as the Company) and to include the Conditions endorsed hereon.

Signature of Sender or his Representative.....Address

Senders must fully and accurately describe the contents of packages and must also clearly state whether carriage is payable by Sender or Consignee.

To what Station to be sent.	CONSIGNEE.		No. of Articles or Packages.	Description of Goods and Marks.	WEIGHT.				Charges paid out.	Who pays the Carriage.
	Name.	Address.			Tons.	cwts.	qrs.	lbs.		

Goods which may be required "To wait order" at any particular Station must be so consigned on this Note.
Name of Company's Drayman bringing traffic in.....[OVER

GENERAL CONDITIONS.

1.—The Company shall not, whether the carriage be by land or sea, be liable for loss or injury (from whatever cause arising) of or to any articles or property described in the *Carriers' Act*, 1830, contained in any parcel or package when the value of such articles or property exceeds £10, unless the nature and value thereof be declared and an increased charge over and above the charge for carriage be paid as compensation for the risk incurred.

2.—In respect of animals or goods intended to be carried by Shipping Companies or other Carriers by Sea the Company are authorized as agents for the Sender to contract for such carriage upon the terms of any Bill of Lading or other conditions required by the Carriers by Sea.

3.—The Company shall not be liable for loss from or for damage or delay to a consignment or any part thereof unless a claim is made in writing within three days after the termination of the carriage of the consignment or any part thereof, or in the case of traffic to places outside the United Kingdom the termination of the carriage by a Railway Company of the United Kingdom, nor for non-delivery of a consignment, unless a claim be made in writing within fourteen days after its receipt by the first contracting Company.

4.—When the Company perform the cartage, the place of collection or delivery shall be the usual place of loading or unloading the goods into or from the road vehicles.

5.—The Consignor or Consignee shall provide at his own risk and expense any power, plant and labour (in addition to the Company's carman) required for loading or unloading road vehicles.

6.—The transit shall (unless otherwise determined) be deemed to be at an end, (a) in the case of goods to be carted by the Company when they are tendered at the place of delivery as defined in Condition 4, or (b) in the case of goods not to be carted by the Company, or to be retained by the Company awaiting order at the expiration of 24 hours after notice of arrival is delivered to the consignee, or at his address, or should be so delivered in due course of post, or where the address of the consignee is not known at the expiration of 24 hours after the arrival of the goods at the place to which they are consigned, or (c) in the case of goods consigned to a destination beyond the limits of the Company's delivery, when they have been transferred to another carrier in the usual course for conveyance or delivery, in which last-mentioned case the Company shall cease to be liable for any subsequent loss, damage, misconveyance, misdelivery, delay, or detention arising from any cause whatsoever.

7.—After the termination of the transit (as defined in Condition 6 (a) and (b)), the Company will hold the goods as warehousemen subject to the usual charges.

8.—The Company will charge in accordance with their scale for the time being for the detention of their trucks, road vehicles, or sheets, or for the occupation of their Sidings, by the trucks of private owners, (a) before or after transit, and (b) during transit in consequence of the Consignee not being ready to accept delivery.

9.—All goods delivered to the Company will be received and held by them subject to a lien for money due to them for the carriage of and other charges upon or expenses in connection with such goods (including charges for warehousing or keeping such goods for detention of trucks, road vehicles, or sheets, or for siding rent during the exercise of such lien), and all goods delivered to the Company under this consignment note or otherwise will be received and held by them subject to a general lien for any moneys due to them from the owners of such goods upon any account, and in case any such lien is not satisfied within a reasonable time from the date upon which the Company first gave notice to the owners of the goods of the exercise of the same, the goods may be sold by the Company by auction or otherwise and the proceeds of sale applied to the satisfaction of every such lien and expenses and charges.

10.—Perishable articles (a) refused by the Consignee, or (b) not taken away from the place to which they are consigned within a reasonable time after arrival, or (c) insufficiently addressed, or (d) not delivered in consequence of strike or riot, may be sold without any notice to Sender or Consignee, and payment or tender of the net proceeds of any such sale after deduction of freight charges and expenses shall be equivalent to delivery.

11.—The Company shall not be liable for (a) loss of market, (b) indirect or consequential damages, (c) loss or delay due to inadequate or incorrect address, or imperfect labelling, (d) loss or damage caused by insufficient or improper packing, (e) loss, damage, or delay caused by or arising out of any strike or riot, (f) loss, damage, or delay caused by Consignee not accepting delivery.

12.—The sender will be liable for all charges for carriage or otherwise including the detention of trucks, road vehicles, or sheets, before, during, or after transit without prejudice to the Company's rights against the Consignee or other person.

13.—The charges for traffic that loses weight through drainage, evaporation, or any cause beyond the Company's control, shall be calculated upon the weight of the goods when received by the Company.

14.—The Conditions and Regulations set out in the Company's Rate Books applicable to the goods carried, shall be deemed to be incorporated herein.

15.—The Company's servants have no authority to vary this Contract.

At this point, therefore, we will discuss briefly the few simple rules by which any claims made will stand the best possible chance of being effectually and speedily met by the railway companies.

The companies, generally speaking, are liable by the custom of the realm for the loss of, or injury to, goods entrusted to them for conveyance; that is, unless the loss or injury arises from any of the following causes—

1. Act of God.
2. The King's enemies.
3. Contributory negligence on the part of the owners.
4. Inherent vice or the natural deterioration of the materials carried.

But in addition to these exceptions, railway companies are entitled to make any reasonable rules or regulations for their own protection they may desire.

One of these rules—and an important one—is embodied in the "General Conditions" printed on the back of an ordinary railway consignment note.

The terms are as follows—

The company shall not be liable for loss or for damage or delay to a consignment or any part thereof unless a claim is made in writing within three days after termination of the carriage of the consignment or any part thereof, or in the case of traffic to places outside the United Kingdom, nor for non-delivery of the consignment unless a claim is made in writing within fourteen days after its receipt by the first contracting company.

The importance of this point is thereby driven home: where goods are lost or damaged during transit, it is of the first importance that the railway company be advised and a claim submitted to them without a moment's delay. Where more than three days are allowed to elapse between the termination of the transit and the delivery of the claim, the railway companies' invariable answer is, "As the claim was not made within the specified time, no liability can be admitted."

Many manufacturers, in order to cover themselves from any repercussion of claims repudiated by the railway companies, have special declarations printed in conspicuous position and type on their invoices and delivery notes. The declaration made by one large north of England firm is in these terms—

Notice.—In order to comply with the Carriers' Regulations in case of Damage or Loss to any consignment, buyers must advise carriers and seller (in writing) NOT LATER THAN THE DAY FOLLOWING DELIVERY. If the buyer's non-compliance with the above causes any subsequent claim to be refused by the carriers, the entire loss must be borne by the buyers.

County Court decisions have, time and again during a number of years past, upheld this time limit rule.

The Sort of Claim that Succeeds.

A claim, like a complaint letter, should always contain a full and detailed declaration of the

consignment to which it refers. The specimen claim illustrated on this page contains all the necessary elements to ensure successful consideration.

A glance at this form will show that it "plays up" the most vital factor in determining the validity of the claim; namely, information showing the company's official exactly what has happened.

The railway companies can refuse—and do actually refuse—to accept responsibility for any claim for loss or damage on the grounds that the goods were "incorrectly" or "insufficiently described on the consignment note." One can only assume that this fact is either little known or widely ignored in view of the number of unsatisfied claims made, many of them by big concerns whose losses on this account must be very heavy.

It is practically impossible to obtain compensation for any loss or damage to consignments forwarded at the "owner's risk" rates. Only in cases where the railway company has made a deviation from an agreed route is there legal liability. This latter point, however, will be carefully explained in a later chapter.

The L. M. & S. Railway Co.

Claims Dept.,

CARLISLE.

Ref.: C. 3546.

PAPER MILLS,

CHELSON.

8th February, 1923.

Dr. to

BRITISH UNBEATABLE TRADERS, LTD.

To damage to 1 crate
containing Ten Tins
of Varnish delivered
here, 7th Feb., 1923,
in a badly damaged
condition—
1 Crate damaged
2 Tins useless
Varnish lost
cleaning and repair-
ing Tins

£	s.	d.	£	s.	d.
	5	—			
	10	—			
	17	6			
	2	6			
			£1	15	—

Ex MANUFRS., LTD.
BIRMINGHAM.

Your Invoice No. 117 and Sheet No. 90.
The damaged goods have been inspected
by your representative.

To succeed, a claim should be framed as simply as possible, but contain information which shows clearly just what has occurred.

CHAPTER VIII

RAILWAY RATES CONSIDERED

EVERY trader needs a working knowledge of railway rate making, in order to know that he is not paying the railway company more than they are entitled to.

The first step will be to purchase a Government Blue Book known as *An Analysis of the Railway Rates and Charges Order Confirmation Acts, 1891-2*, from any Government bookseller, and this can be obtained for the modest sum of one shilling and sixpence. This book contains the maximum rates which a railway company can charge for the conveyance of merchandise between any two given points. In practice, the railway company do not, as a rule, quote the full maximum rates allowed by law, but usually charge rates which are well within the legal maxima.

Indeed, it is said that practically 75 per cent of the traffic at present passing over the railways is carried at "Special" or "Exceptional" rates. The reason for this, of course, is that the volume of traffic passing largely determines the question of the rate, for it is an economic truth that the more traffic one can get, the less it costs to carry. Hence if the railway companies can get a sufficiently large volume of traffic of one specific class, they will find it more beneficial to themselves and customers alike, to quote a low rate and make a small profit, than to charge the full maximum rates and probably drive the traffic away to some other form of transport.

The Correct Classification.

In addition to containing the maximum rates and charges leviable by the railway companies, the Government Blue Book contains a copy of the Parliamentary Classification of Goods. This Classification is the basis of that railway publication known as the *General Railway Classification of Goods by Merchandise Trains* already mentioned.

If the trader should find that his products are placed in a higher class in the "working" or Railway Classification than that shown in the Parliamentary Classification, he should take immediate steps to know the reason why. A letter addressed to the Railway Department of the Board of Trade, asking them for an explanation of this will soon reveal whether the higher classification is legal or not, because all railway companies must apply to the Board of Trade if they wish to amend the Parliamentary Classification.

If the Board of Trade reply that the railway companies have not at any time applied to them to amend the classification, the rates charged to him for conveyance of his products are clearly illegal and *ultra vires* the railway company. In this case, he should steadfastly refuse to pay more than the proper rate for carriage, and reduce all

the calculations on his railway account until the company agree to carry at the correct figure.

To sum up, it is regrettable that even to-day many traders continue to go on paying away enormous sums in carriage charges each year, when a little investigation would reveal to them that incorrect rates are being applied to their traffic, for the simple reason that they will persist in consigning their traffic under fanciful descriptions, or else through their products being too highly classified in the General Railway Classification. Hence it is a matter of no small moment that traders should occasionally investigate their system of consigning traffic and the charges paid, for by so doing they will often find a better way and reduce their transportation costs considerably.

How Railway Rates are Built up.

We now come to the interesting subject of how railway rates are built up. At the outset, it should be remarked that a railway rate consists of something more than the charge for conveyance upon the line. It consists of a number of separate charges for services which are incidental to the actual carriage. A description of what are included in the various rates which the railway companies quote will be of interest at this point.

1. "C. AND D." RATE.—Haulage along the line, loading and unloading, covering and uncovering, station terminals at each end, collection charge, delivery charge.
2. "S.S." RATE.—Haulage along the line, two station terminals, loading and unloading, covering and uncovering.
3. "C" RATE.—All the items mentioned in No. 1 with the exception of the service of delivery.
4. "D" RATE.—All the items mentioned in No. 1 with the exception of the service of collection.
5. "SPECIAL."—All the items mentioned in No. 1, unless otherwise stated. This rate is lower than the ordinary class rates and is granted to traders who can guarantee a certain amount of traffic to pass.

The maximum rates and charges which the railway company can make for any of the above items is, as previously stated, contained in *An Analysis of the Railway Rates and Charges Order Confirmation Acts, 1891-2*, with the exception of the services of cartage. The charges levied by the railway companies for the performance of the services of cartage are not fixed by law, i.e. there is no statutory limit, but the charge must be reasonable.

How to Check a "Local" Rate.

As an illustration let us analyse the 2nd Class rate from Darwen to Southport, in order to ascertain whether the railway company are exceeding their powers or not by charging a higher rate than is allowed by Parliament.

The first thing to do is to turn up the Special Act respecting the maximum conveyance charges which the railway company may make for services rendered. This will be found on page 158 of the

Analysis of Railway Rates and Charges Order Confirmation Acts, 1891-2, and is as follows—

In respect of Merchandise comprised in the under-mentioned Classes.	MAXIMUM RATES FOR CONVEYANCE.			
	<i>For Consignments except as otherwise provided in the Schedule.</i>			
	For the first 20 Miles, or any part of such Distance. Per Ton per Mile.	For the next 30 Miles, or any part of such Distance. Per Ton per Mile.	For the next 50 Miles, or any part of such Distance. Per Ton per Mile.	For the remainder of the Distance. Per Ton per Mile.
A	d. 1-00	d. 0-85	d. 0-50	d. 0-40
B	1-40	1-00	0-80	0-50
C	1-80	1-50	1-20	0-70
1	2-20	1-85	1-40	1-00
2	2-65	2-30	1-80	1-50
3	3-10	2-65	2-00	1-80
4	3-60	3-15	2-50	2-20
5	4-30	3-70	3-25	2-50

On page 124 of the same book it will be found that the following scale of Maximum Station and Service Terminals is common to all the Railway Rates and Charges Confirmation Acts of 1891-2, except in the case of the Caledonian and North British Railway Acts, where the charges are slightly different.

In respect of Merchandise comprised in the under-mentioned Classes.	MAXIMUM TERMINALS.				
	Station Terminal at each end.	Service Terminals.			
		Loading.	Unloading.	Covering.	Uncovering.
	Per Ton. s. d.	Per Ton. s. d.	Per Ton. s. d.	Per Ton. s. d.	Per Ton. s. d.
A	— 3	—	—	—	—
B	— 6	—	—	—	—
C	1 —	— 3	— 3	— 1	— 1
1	1 6	— 5	— 5	— 1-50	— 1-50
2	1 6	— 8	— 8	— 2	— 2
3	1 6	1 —	1 —	— 2	— 2
4	1 6	1 4	1 4	— 3	— 3
5	1 6	1 8	1 8	— 4	— 4

Now the general conditions governing these maximum rates and charges are as follows—

MAXIMUM CONVEYANCE RATES. The maximum rate for conveyance is the maximum rate which the company may charge for the conveyance of merchandise by merchandise train; and, subject to the exceptions and provisions specified in this schedule, includes the provision of locomotive power and trucks by the company, and every other expense incidental to such conveyance not hereinafter provided for. Provided that—

(a) The provision of trucks is not included in the maximum rates applicable to merchandise specified in Class A of the Classification, and the company shall not be required to provide trucks for the conveyance of such

merchandise, or for the conveyance of lime in bulk or salt in bulk, or of the following articles when carried in such a manner as to injure the trucks of the company: that is to say, ammoniacal liquor, creosote, coal-tar, gas-tar, gas-water, or gravel tarred for paving.

(b) Where, for the conveyance of merchandise other than merchandise specified in Class A of the Classification, the company do not provide trucks, the rate authorized for conveyance shall be reduced by a sum which for distances not exceeding 50 miles shall, in the case of difference between the company and the person liable to pay the charge, be determined by an arbitrator to be appointed by the Board of Trade, and for distances not exceeding 50 miles shall be the charge authorized to be made by the company for the provision of trucks when not included in the maximum rate for conveyance.

MAXIMUM STATION TERMINALS. The maximum station terminal is the maximum charge which the company may make to a trader for the use of the accommodation (exclusive of coal-drops) provided, and for the duties undertaken by the company for which no other provision is made in this schedule, at the terminal station for or in dealing with merchandise, as carriers thereof, before or after conveyance.

MAXIMUM SERVICE TERMINALS. The maximum service terminals are the maximum charges which the company may make to a trader for the following services, when rendered to or for a trader, that is to say, loading, unloading, covering and uncovering, merchandise, which charges shall, in respect of each service, be deemed to include all charges for the provision by the company of labour, machinery, stores, and sheets. Provided that—

Where merchandise conveyed in a separate truck is loaded or unloaded elsewhere than in a shed or building of the company, the company may not charge to a trader any service terminal for the performance by the company of any of the said services if the trader has requested the company to allow him to perform the services for himself and the company have unreasonably refused to allow him to do so. Any dispute between a trader and the company in reference to any service terminal charged to a trader who is not allowed by the company to perform for himself the services shall be determined by the Board of Trade.

With this information in hand we are now in a position to proceed with our calculation. This is as follows—

DARWEN TO SOUTHPORT.

CLASS 2—13/9 per ton (Smalls).

Throughout distance 32 miles.

	s. d.	Per Ton. s. d.
20 miles at 2-65d. per ton per mile	4 5	
12 miles at 2-30d. per ton per mile	2 3-60	
32		6 8-60
Station Terminal at Darwen	1 6	
at Southport	1 6	
Service Terminals—		
Loading	8	
Unloading	8	
Covering	2	
Uncovering	2	
Balance left for Cartage at Darwen and Southport	2 4-40	
Total Rate	13 9	

The standard charge for cartage in provincial towns is 1s. 8d. per ton. If this amount had been added to the maximum powers for conveyance and station and service terminals, viz. 11s. 4-60d. the total class rate would be 14s. 8-60d.

Hence it is quite clear that the rate charged by the railway company is well within the legal limit.

How to Check "Through" Rates.

The analysis of a "through" rate is rather more difficult than the analysis of a "local" one, for the reason that each company's portion of the throughout distance must be dealt with by itself. Now, although Sec. 25 of the Railway and Canal Traffic Act, 1888, binds the railway companies to grant facilities for the receiving, forwarding, and delivering of "through" traffic, to and from any other railway and canal company at "throughout" rates, yet there are many instances where the railway companies, for their own convenience, charge "through" traffic at two or more "local" rates.

Where this is done, it increases the already expensive carriage rates very considerably, and the trader should insist upon through rates being charged in every instance where his traffic passes over the lines of two or more railway companies. If he does not, and goes on paying two "local" rates, he is being charged for accommodation and services which are not provided; hence it is to his own advantage to look closely into the matter.

Let us now, for the purposes of illustration, proceed to make a disintegration of the 2nd Class rate of 22s. 11d ("Smalls") in operation between Darwen and York. The maximum rates charged by the North Eastern Railway Company are identical with those of the Lancashire & Yorkshire Railway Company for this particular class, so the calculation will work out as follows—

DARWEN TO YORK.

THROUGHOUT DISTANCE 80 MILES.

DARWEN TO NORMANTON (L. & Y. Rly. Co.)—				Per Ton.
Distance.	d.	s.	d.	s. d.
20 miles at 2-65 per ton per mile			.4	5
30 " 2-30 " "			.5	9
4½ " 1-80 " "				8-10
				10 10-10

NORMANTON TO YORK (N.-E. Rly. Co.)—				
20 miles at 2-65 per ton per mile			.4	5
5½ " 2-30 " "			.1	0-65
25½				5 5-65

Station Terminal at DARWEN	.	.	1	6
" " YORK	.	.	1	6
Loading	.	.	.	8
Unloading	.	.	.	8
Covering	.	.	.	2
Uncovering	.	.	.	2
Balance left for Cartage at Darwen and York	.	.	1	11-25
Total	.	.	22	11

Here again, it will be found that this rate is also within the legal margin by 1s. 4-75d.

CHAPTER IX

CHECKING A RAILWAY CARRIAGE ACCOUNT

RAILWAY charges are now such a heavy item in the cost of marketing, that it is of the first importance to keep a salutary check upon them.

The average trader generally pays the weekly or monthly railway account without troubling about the items; he has never been taught to deal with such mysteries, and looks upon it as part of the railway company's work.

Yet many an account sent out by a railway company has contained errors not apparent to the uninitiated, and in consequence passed as correct by the untrained eye.

The purpose of this chapter, therefore, will be to explain methods by which overcharges in railway accounts may be detected readily, and also to deal with a few important rules which should be observed when checking a railway carriage account, or indeed a carriage account of any description.

Why the Railway Clerk does not Under-charge.

The first principle of railway charges is, admittedly, to make the highest rate possible under the circumstances. As an illustration, let us assume that the trader has received the account shown on the next page, and that he wishes to check this in order to have the satisfaction of knowing that he is not paying the railway company more than the amount to which they are legally entitled. This account does not, in any way, contain errors and mistakes which do not occur in practice, but on the contrary, contains genuine and recurring overcharges.

A Few Useful Rules.

The procedure to be followed in checking a railway carriage account is briefly this—

1. The clerk or clerks who are responsible for the outward and inward traffic, should tick off on their own books each item that appears in the account.

2. The weights should be verified in the same way to prevent any excess being debited against you. We have already seen what a considerable difference a single pound in weight may make in the carriage charges; hence it is of the utmost importance that the weights should be very carefully checked.

3. In a business where various classes of goods are handled, the rates should be checked to make sure that the correct "class" rate has been charged or that the ordinary rate has not been charged when an "exceptional" or "special" rate is in operation.

4. A railway account often includes what are called "paid-on" charges. These represent the amount paid out by the railway company for such items as cartage, sea-freights, dock dues, etc.—items which are incidental to the carriage of goods but which are not included in the railway rate. For instance, if the railway company

MONTHLY CARRIAGE ACCOUNT.

Messrs. John Brown & Co., Ltd.

Darwen Station, May 31st, 19..

To the.....RAILWAY COMPANY

All Cheques to be made payable to the Company's Order (not to the Company's representatives) and crossed thus—
A/c.....Ry. Co.

When accounts of £2 and upwards are paid, the Company's Printed Stamped Form of Receipt should be demanded.

DATE.	Invo. No.	FROM	TO	NAME	DESCRIPTION OF GOODS.	WEIGHT.		Rate.	Paid on.	Carriage.	Ctge. etc.	Total.	Deductions which should be made.		O/c.
						T. C.	Qrs. Lbs.						s. d.	£ s. d.	
May 2		Darwen	Loughboro'	James	3 pkgs. Soap	2	1	22/9				£ 6 2			£ 6 2
" 2		"	Coventry	Bucknall	4 pkgs. Hard-ware	5	3	63/5				18 7	Double entry with Invoice 26 (August 1st)		18 7
" 6		"	Notts	Munro	2 pkgs. Groceries	1	2	31/6				5 10	No Trace		5 10
" 6		"	Leicester	Simms	1 pkge. Provisions	2	—	33/—				7 10	Rate should be @ 28/—		1 2
" 8		"	Sheffield	Brown	2 pkgs. Tea	2	—	25/4				6 2	Charge small lots together and deduct carriage. Rate should be × 46/4 plus 3 split delivery charges (1/1)		4 4
" 8		"	"	Dawson	1 pkge. Tea	1	—	25/4				3 6			
" 8		"	"	Andrews	3 pkgs. Tea	2	3	25/4				8 4			
" 8		Doncaster	Darwen	Hicks	10 pkgs. Sugar	9	—	34/1			2/—	17 5	Ctge. chgd. in error as this is C. & D. Tfc.		2 —
" 8		M/cr.	"	Gordon	5 pkgs. Candles	2	2	9/7				3 4	Sender Dr. Invoiced Carriage Paid		3 4
" 9		Sheffield	"	Wray	1 pkge. Tea	1	2	25/4	1 6			6 4	What does the Paid-on Charge represent		1 6
" 9		Hull	"	Molloy	25 pkgs. Rosin	3	10	38/6					Should have been chgd. as 4 Tons @ 4-ton Rate of 27/9 s.s. Deduct and Re-post ctge. Charges		1 3 9
" 10		Doncaster	"	Innes	5 pkgs. Sugar	6	2	34/1				11 1	Wht. shd. be 4-2-0 ded'ct		3 5
" 10		Leicester	M/cr. for Darwen	Hyde	5 pkgs. Paint	5	—	44/11	5 1			16 4	Shd. be × thro' rate of 51/—		3 6

deliver goods which are beyond the usual cartage limits of the company, they usually charge 1s. per ton extra, and this amount will be shown in the "paid-on" column as O/B (Out of Boundary) 1s. If the trader does not fully understand any paid-on charges debited to him through his railway account, he should deduct and ask for an explanation.

5. The rate usually includes collection, or delivery, or both; if it does, and you are charged extra for these, deduct such charges, unless, of

The book should be ruled somewhat after the following style—

Name of Station.	Mileage.	CLASS RATES.						Remarks.
		C.	1.	2.	3.	4.	5.	



Photo

A PACKING DEPARTMENT (Messrs. T. F. Bristow & Co., Ltd.)

Kealeys, Ltd.

course, they are for cartage as explained in the previous paragraph.

6. The shillings and pence charged to each item should be verified by reference to a Railway Ready Reckoner, which can be purchased for a few shillings, and then the various items should be added up in order to prevent any mistakes in this portion of the account.

Make Your Own Rate-Book.

The trader should provide himself with a rate-book containing the rates in operation between the stations to and from which he receives or despatches traffic. The A.B.C. books sold by all stationer's shops prove admirable for this purpose, as the towns can be indexed in their proper order.

The compilation of such a book is quite an easy matter, because all railway companies are bound by Sec. 14 of the Regulation of Railways Act, 1873, to allow anyone free access to their rates books, and to allow anyone to make whatever extract they may wish. This section—an important one—reads as follows—

"Every railway company and canal company shall keep at each of their stations and wharves a book or books showing every rate for the time being charged for the carriage of traffic, other than passengers and their luggage, from that station or wharf to any place to which they book, including any rate charged under any special contract, and stating the distances from that station or wharf to every station, wharf, siding, or place to which any such rate is charged."

"Every such book shall, during all reasonable hours, be

open to the inspection of any person without the payment of any fee."

It will be seen from this that no objection can be made to any traders who desire to make rate books of their own. The usefulness and convenience of having such a book always at hand cannot be over-estimated, and it is an effective safeguard against any incorrect rates being charged on the railway companies' carriage accounts.

Pay up First, Then Claim.

Railway carriage accounts, it should carefully be noted, should always be paid in full, and any irregularities adjusted afterwards.

Any trader who withholds payment of his account, pending settlement of a dispute, may suddenly find his credit facilities stopped, as railway companies cannot be compelled by law to grant credit accounts. He will be put to the inconvenience of having to pre-pay carriage on all the goods he sends out—a very unpleasant way of doing business.

CHAPTER X

REBATES

WE have already noticed in the previous chapter that a railway rate is comprised of a number of different charges for the provision of certain services and accommodation; hence it is only reasonable to assume that if the trader performs for himself one of the services for which he has been charged in his railway rate, an allowance will be made to him by the railway company.

As an example let us suppose that a Preston manufacturer is urgently in need of a consignment of raw cotton which has been forwarded to him by rail from London a few days previously. Upon telephoning to the Goods Department at Preston station, he learns that the cotton has just arrived, but at the moment there is no cartage staff available to effect delivery. Fortunately, he possesses a lorry or two of his own, so he decides to collect the cotton by his own vehicles. When his railway account comes in—presuming the cotton to have been sent "Carriage To Pay"—he may find that he has been charged a rate which is inclusive of collection and delivery charges. As, however, he performed the service of delivery, the railway company cannot clearly insist upon the full rate being paid, for it is specifically provided by Sec. 4 of the Railway Rates and Charges Order Confirmation Acts, 1891-2 that, *inter alia*—

"... the company may not charge to a trader any service terminal for the performance by the company of any of the said services if the trader has requested the company to allow him to perform the service for himself."

In view of this, therefore, he makes a formal claim in the form of the following debit note—

WIDEAWAKE MILL,

PRESTON.

3rd January, 192..

To the L. M. & S. RLY. CO.,

(L. & N.-W. Section)

Christian Road Station,

PRESTON.

To Cartage Rebate on the following
Traffic collected by our own lorries—

		£	s.	d.
Dec. 30.	Invoice 253: 50 bales Cotton, 6 tons & 3/3 per ton	0	19	6

Upon receipt of this debit note, the railway company will, by return, pass the claim for payment, or presuming the claimant has a ledger account with the company, pass him a "rebate voucher," with instructions to settle *per contra* by deducting the amount from his next account.

The foregoing is but a simple instance of where a rebate can be claimed from the railway company, by reason of their non-performance of the service of "delivery." It must not be assumed from this, however, that because a rebate may be claimed upon traffic sent by goods train, the same rules apply to parcels when conveyed by passenger train. Take, for instance, the famous rebate case of *Stone v. Midland Railway Company*, 1904.¹ Here, the plaintiffs, who were common carriers at Bristol, despatched certain parcels of tailor's clothing from Bristol to Southampton by the Midland Railway Company's passenger train, having themselves collected the parcels at Bristol and handed them over to the company at their Bristol passenger station. Under protest, the plaintiffs paid the scale charge to the company, and then brought an action against them for "money had and received," claiming to be entitled to a rebate from the defendants in respect of the collection of the goods at Bristol. The Court of Appeal held that, as the railway company were under no statutory obligation whatever to carry this particular class of goods by passenger train, the plaintiffs were not entitled to any rebate. In giving judgment, Collins, M.R., said—

"We arrive then at this state of things—that the company is under no obligation to carry non-perishable merchandise by passenger train, that there is no tariff fixed for such carriage, and no obligation to make a tariff. The merchandise in this case was non-perishable, and, while under no obligation to carry it by passenger train, the company have announced that they are prepared to take it from the house of the sender and deliver it to its destination at a certain rate. If that rate were to be analysed, it might very probably be found to include an element representing the cost of collection and delivery; but the company say that they are willing to afford a certain facility to anyone who chooses to take it, but only on payment of an inclusive rate which, it may be taken, includes

¹ *Law of Carriage* (Pitman).

a charge for collection. The plaintiffs say that they do the collection and then hand over the goods at the defendants' station, and therefore ought not to be charged for collection, and insist on what is in effect a station-to-station rate. If the senders of goods had a right to such a rate the matter would stand on a different footing; but they have no such right. The plaintiffs cannot claim to insist upon facilities being given for the transit of their goods by passenger train, and it is therefore obvious that they cannot complain that the company refuse to give them a station-to-station rate."

An Intricate Rebate Problem—The Private Siding.

So much for the elementary side of the subject; now as to its intricacies.

Firms who possess private sidings of their own are often sorely troubled regarding the adequacy of the "allowance" or "rebate" made to them by the railway companies, in return for the performance of certain station and service terminals, etc., for which a specific charge has been made in the railway rate. This problem is one of paramount importance to every business man, inasmuch as a clear understanding of what the law does and does not allow in this respect, is the key to all the rebate problems.

It is clearly established by Secs. 2, 3 and 4 of the Railway Rates and Charges Confirmation Acts, 1891-2, that if the railway companies do not perform the services of loading, unloading, covering, uncovering, cartage, or do not provide station accommodation, they must make an allowance to the trader concerned, i.e. providing a specific charge has been made for each of these services through the railway rate.

These three sections read as follows—

Maximum Conveyance Rates. The maximum rate for conveyance is the maximum rate which the company may charge for the conveyance of merchandise by merchandise train; and, subject to the exceptions and provisions specified in this schedule, includes the provision of locomotive power and trucks by the company, and every other expense incidental to such conveyance not hereinafter provided for. Provided that—

(a) The provision of trucks is not included in the maximum rates applicable to merchandise specified in Class A of the Classification, and the company shall not be required to provide trucks for the conveyance of such merchandise, or for the conveyance of lime in bulk or salt in bulk, or of the following articles when carried in such a manner as to injure the trucks of the company, that is to say, ammoniacal liquor, creosote, coal-tar, gas-tar, gas-water, or gravel tarred for paving.

(b) Where, for the conveyance of merchandise other than merchandise specified in Class A of the classification, the company do not provide trucks, the rate authorized for conveyance shall be reduced by a sum which for distances not exceeding 50 miles shall, in the case of difference between the company and the person liable to pay the charge, be determined by an arbitrator to be appointed by the Board of Trade, and for distances not exceeding 50 miles shall be the charge authorized to be made by the company for the provision of trucks when not included in the maximum rate for conveyance.

Maximum Station Terminals. The maximum station terminal is the maximum charge which the company may make to a trader for the use of the accommodation (exclusive of coal-drops) provided, and for the duties undertaken

by the company for which no other provision is made in this schedule, at the terminal station for or in dealing with merchandise, as carriers thereof, before or after conveyance.

Maximum Service Terminals. The maximum service terminals are the maximum charges which the company may make to a trader for the following services, when rendered to or for a trader, that is to say, loading, unloading, covering, and uncovering, merchandise which charges shall, in respect of each service, be deemed to include all charges for the provision by the company of labour, machinery, stores, and sheets. Provided that—

Where merchandise conveyed in a separate truck is loaded or unloaded elsewhere than in a shed or building of the company, the company may not charge to a trader any service terminal for the performance by the company of any of the said services if the trader has requested the company to allow him to perform the services for himself and the company have unreasonably refused to allow him to do so. Any dispute between a trader and the company in reference to any service terminal charged to a trader who is not allowed by the company to perform for himself the services shall be determined by the Board of Trade.

In these days of enhanced railway rates, the terminal charges are naturally increased; therefore, when the private siding owner makes out his claim for rebate allowance, he should increase the terminal rebates *pro rata* with the percentage increases put on the 1914 railway rates.

In the case of the flat rate, one-half of this rate should be claimed, as this rate is, according to the Rates Advisory Committee, designed to cover the increased cost of shunting, handling and the carting of traffic. As the trader performs these services in his own siding, it is quite clear that he should not be called upon to bear this vexatious charge at both ends. Of course, in different sidings, different conditions apply, and one cannot reasonably expect to put the railway company to extra trouble and expense in providing such services as shunting, signalling and clerkage, etc., as was the case in *Portway v. Colne Valley & Halstead Railway Co.*, 1899, without payment of some kind.

Summed up in a nut-shell, the whole problem of rebates is this—If the railway company include a charge in the railway rate for a service which they do not perform, they are bound by the Railway and Canal Traffic Acts to make a corresponding allowance.

Thus, it will be seen from this chapter how important it is that every trader who deals with the railway companies should at least possess a slight knowledge of how railway rates are made up, in order to know that he is not being charged more than the legal maxima for the conveyance of his traffic.

CHAPTER XI

THE USES OF CANALS AND WATERWAYS

At this point a brief description of the transportation facilities which our canals and inland waterways provide, will be of interest and also of

service, in so far as it will throw light upon a form of competition with which the railway companies have been faced in the past.

Advantages Over Rail Transport.

In the case of those factories and workshops which are situated upon the banks of canals and navigations (i.e. canalized rivers), the advantages of water transport over rail transport are numerous. As a specific illustration take the Olympia Oil and Cake Mills, Selby. This firm's works are situated alongside the banks of the River Ouse, and through the river being made navigable they are able to receive their raw material, which is delivered overside at Hull from steamer to barge, direct by water. They have also the additional advantages of being in a more central position than Hull for distribution purposes, in a place where local rates are lower, and in a position whereby they can despatch by inland waterway oil and cake to such places as Leeds, Blackburn, York, Doncaster, etc.

Carriage by Water Less than Carriage by Rail.

Now, generally speaking, the costs of construction and maintenance of an inland waterway are much lower than those of a railway, hence one usually finds the rates for carriage by canal to be about 10 per cent less than the rates charged for carriage by rail.

Railways' Efforts to Crush Canals.

In order to counteract these natural advantages of inland water transport, the railway companies have, in the past, granted extensive (and incidentally, expensive) concessions to traders in the hope of capturing some of this canal traffic for themselves. At Hull, for instance, all "Station to Station" traffic is carted free of charge by the railway companies—a concession which is, the writer believes, without parallel throughout the length and breadth of Great Britain. But at Manchester the conditions are entirely different. Here the railway companies put up a fierce opposition to the building of the Manchester Ship Canal, because they contended that it would cater for purely local Manchester traffic. They would not co-operate with the canal promoters in the collection and delivery of overseas traffic, and even went to the length of declining to carry any traffic at all to or from the Manchester Docks. Eventually, however, wiser counsel prevailed, and the railway companies were bound by the Railway and Canal Commissioners to carry traffic to and from the canal. Then further trouble arose respecting Sec. 25 of the Railway and Canal Traffic Act, 1888, which, *inter alia*, provided that—

"... the said facilities to be so afforded are hereby declared to and shall include the due and reasonable receiving, forwarding, and delivering by every railway company and canal company and railway and canal company, at the request of any other such company, of through traffic to and from the railway or canal of any other such company at through rates, tolls, or fares (in this Act referred to as through rates); and also the due and reasonable receiving, forwarding, and delivering by every railway company and canal company and railway and canal company, at the request of any person interested in through traffic, of such traffic at through rates. . . ."

The railway companies contended that the owner of vessels plying between Manchester and the entrance to the canal could not be made parties to a statutory through rate, and technically speaking they were correct. This placed the Canal Company in considerable difficulty, because tolls which were not too high for Manchester traffic were, when added to railway rates, too high for traffic for competitive points. The company could not charge a lower toll excepting as part of a through rate, as that would be creating undue preference.

To meet this difficulty, the Canal Company formulated a system of inclusive through rates, inclusive of reduced ship canal tolls, Manchester wharfage charges, and the railway rate—the Canal Company's tolls being adjusted so that the inclusive rate should become competitive and to the advantage of the trader. Although these through rates have never been accepted by the railway companies, the difficulty is overcome by the whole amount of the through rate being charged forward (when collected from the consignee) the Canal Company paying the full railway rate to the railway company.

Disadvantages of Water Transport when Compared with Rail Transport.

From the foregoing, the reader will have noticed the effect that water competition has of stimulating railway competition and keeping rates down, but it must not be assumed that water transport is immeasurably superior to transport by road or rail. This is not by any means the case. It has its disadvantages as well as its advantages, and unless the trader's workshop or factory is situated upon the banks of a canal or inland waterway, water transport will prove of very little use to him. For instance, traffic which requires a rapid transit should not be sent by inland waterway, because, in the matter of speed and punctuality, the railway or the road have the water route well beaten. And this important factor of speed and punctuality is a psychological one—one which is influencing more and more traffic away from our canals every day.

Then again, the canals do not cater for small consignments of merchandise, but invariably deal only with low grade traffic such as coal, etc., i.e. traffic which is carried in boat loads and where delivery is a matter of secondary importance.

To sum up, inland water transport is of very little use indeed to the average trader, but those traders whose workshops and factories are built alongside the banks of a canal or inland waterway can often economically utilize this mode of conveyance for the transport of *bulk* consignments of certain low grade traffic, or the carrying of export traffic direct from the works to the ship's side, thereby avoiding the payment of dock dues, etc.

his goods from point to point at an absolute minimum of expense. In the first place we will consider the enormous advantages that transport by road possesses over transport by rail.

Elimination of Handling.

The greatest advantage which transport by road possesses over transport by rail is that it carries from door-to-door. Carriage by rail,



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Illuminated on the indirect system by means of "Eye-Rest" units

CHAPTER XII ADVANTAGES OF MOTOR TRANSPORT

THE trader who has studied the foregoing chapters will at least have a working knowledge of the best methods of despatching his goods, as well as of the legal technicalities surrounding the transportation thereof. There still remains, however, one factor which should carefully be considered—that of motor transport, a judicious employment of which will often result in considerable savings being effected by packing, labour, and carriage costs, and will, in short, enable the trader to move

even in the case of through loadings, involves several handlings—cartage of goods to station, carriage by rail, and cartage again at destination, etc.—whereas goods loaded into a motor lorry are not touched again until they reach the floor of the destination warehouse. Of course, different conditions will apply in different circumstances, but even in the case of a ten hundredweight consignment sent by road, the motor will score heavily against the railway as regards the handling of the traffic. This elimination of handling naturally tends to promote a happier spirit of business relationship between the sender and consignee, whilst it acts, at the same time, as a preventive of pilferage and damage.

Elimination of Packing and its Attendant Labour Costs.

Then again, there is another important advantage—that of the immense saving in tare. Indeed, many firms are saving thousands of pounds per annum on this score alone, by sending their products in a loose or unpacked condition. But apart from this immense saving of tare, there is also the question of labour costs to be considered. By labour cost is meant the time occupied by the sender in packing his goods, and everyone who has to deal with the packing of goods for conveyance by rail will know what a high standard of packing is required by the railway companies before they will deign to accept the traffic for conveyance. In sending goods by road, the sender avoids all this trouble and expense, and incidentally need not trouble himself to ascertain what the railway companies' conditions are regarding the correct labelling of his goods. This packing and labelling question, as we have seen already, is a very important one to the railways, inasmuch as they possess the absolute legal right to refuse to carry, except at the owner's risk, any goods tendered to them for conveyance which they may consider to be improperly packed or insufficiently labelled. It is to the trader's own advantage, therefore, to utilize motor road transport wherever possible in preference to rail transport, thereby avoiding the vexatious, harassing, stringent, and at the same time costly regulations of the railway companies.

Cost.

An item which is regarded by many as the acid test of the whole problem, namely cost, has purposely been left to the last. So far as road transport is concerned, it has been proved over and over again that road carriers can and do undertake to convey traffic by road motor to places within a hundred miles radius, and in certain exceptional instances even further than that, at much below the direct rail cost. To take as an example the second-class railway rate at present in operation between Bolton and Liverpool—road motors will undertake to carry the same traffic by road at the rate of 12s. per ton, a figure which is less than the pre-war railway rate.

No wonder the railway companies complain that they are feeling the draught!

Then again, generally speaking, road transport hauliers are inclined to rate-cutting amongst themselves, when the supply of available lorries is more than sufficient for the demand, hence their policy—which appears to be one of "Get the traffic and ignore the consequences!"—results in rates being quoted broadcast which leave one wondering how they manage to cover their operating costs. This, of course, acts to the advantage of the trader and to the detriment of the railway companies.

Summary.

To sum up, the trader, be he a retailer, wholesaler, or manufacturer, should always be on the alert in trying to reduce his distribution costs to an absolute minimum. If he can buy transport in the cheapest market and at the same time get increased efficiency, he has reason to congratulate himself. In the past, railway companies have had the monopoly of inland transport, but now they are faced with a serious rival in motor road transport—a rival that can carry goods more quickly and far more efficiently and at a much lower cost than the railway companies themselves.

Of course, "Smalls" traffic is handled more efficiently and often more economically by rail than by any other form of transport, but for bulk, consisting of 2 to 6 tons, motor transport undoubtedly holds the field. It is up to everyone, therefore, to study the advantages of motor transport used commercially, as broadly outlined in the preceding paragraphs, and to utilize the information contained therein to his own pecuniary advantage.

Co-ordination of the Motor Haulier with the Coastwise Carrier.

Generally speaking, motor hauliers cannot at present successfully compete with rail transport to places outside a radius of about a hundred miles. A few enquiries will, however, quickly establish the fact that the running of a co-ordinated road and sea transport scheme to places over 100 miles distant is a practical proposition, and easy of accomplishment. It will bring the more distant towns within the range of motor competition, and incidentally result in cutting the trader's carriage costs.

The first step the trader must take is to make application to the various coastwise carriers, asking for particulars respecting freights, dues, charges, etc., that they propose to make upon the traffic intended to pass for conveyance. Once this information is obtained, the rest will be comparatively simple. The trader has only to add the cost of motor conveyance (to the docks) to the inclusive sea charges, subtract them from the direct railway rate, and the figure resulting therefrom will be the economy shown by the road and coastal services when compared with the railway.

The method of co-ordination is briefly this. The sender fills up a consignment note containing such information as the consignee's name and address, particulars of the goods forwarded, and who is responsible for the carriage. This note he hands to the road haulier at the time of despatch. He in turn passes it on to the shipping company and thus—so far as the transportation is concerned—the transaction is ended.

After a lapse of a few weeks, the coastal shipping company will send in to the consignor a freight

account debiting him with freight, cartage and dock dues, and—in certain instances—inland rail charges. These charges should be carefully checked with the quotations received before being passed for payment, as sometimes the coastwise carriers may charge cartage, when the quotation specifically states that the freight rates are inclusive of collection and delivery, but exclusive of dock dues and port charges.

If any irregularity is discovered, the account should be returned to the shipping company, along with suitable remarks.

It might be added, for the reader's information and edification, that where coastal traffic is concerned, there are no bills of lading, customs entries, nor merchandise declarations to bother about. The only difference from the railway formalities is that "Company's Risk" does not enter.

Consignments by sea are quoted and always carried at "Owner's risk," but if the trader wishes to insure himself against any loss or damage, the necessary insurance policy can always be arranged through the shippers at a low nominal fee per cent.

Of course, transport by sea takes somewhat longer than transport by rail, but the difference is, in any normal case, not more than two days.

Regular sailings are made between all the main ports, and through rates can be secured over the railways to inland towns.

To sum up, those traders who find railway charges crippling their business, will be well advised to enquire into other services, for by so doing they will often find that it is advantageous to despatch the major portion of their traffic by road and sea. The procedure to be followed is exactly the same, when sending traffic by co-ordinated road and sea services, as when sending traffic by rail, so that the small trader need not experience any great difficulty in putting the scheme into operation.

CHAPTER XIII

KEEPING A PRIVATE MOTOR LORRY

THE private motor lorry is frequently employed by the trader—not on economic grounds, but as the means of rendering good service.

In these days of keen competition, the firm which can deliver on time is the firm which is going to forge ahead in the future, and to do this, it must possess a private lorry or two of its own—providing, of course, that the business warrants it.

We have seen that considerable economies can be effected by the employment of hired road vehicles, yet, somehow, the owners of these machines fight shy of small consignments, and,

in the majority of cases, cater only for bulk consignments of 3 tons and upwards. This is probably due to their lack of organization, and the trader whose local trade consists of a large number of separate deliveries finds these hired vehicles useless for his purpose.

It is necessary, therefore, that he should possess a small motor vehicle of his own, if he is to be up to date and in keeping with the modern trend of commerce. He will then be in a position to deal with any exceptional emergencies which may arise, or, in a broader sense, to effect quicker deliveries to his customers when service is the first consideration and cost of carriage the last.

First, then, as to the choice of a suitable vehicle. The trader should always seek advice from responsible persons, such as the manufacturers, agents, etc., regarding the suitability of the motor intended to be purchased. Regard should be made to the particular class of trade for which it is intended, and if the vehicle is a second-hand one, expert technical advice should always be obtained respecting the probable life of the engine, etc. It is very seldom that motor agents give advice which they know to be false, as this is directly against their sales policy.

Once a trader has been dissatisfied with his purchase, it is only natural to expect that he will turn elsewhere for his repeat orders, hence the advice given by motor agents and manufacturers is advice which can be relied upon. They like to hear that their vehicles are giving satisfaction, as this acts as a constant advertisement, whilst at the same time it ensures the trader coming again if he desires another vehicle.

Running Costs.

In these days of fluctuating prices and costs, it is very difficult to estimate running costs that will apply not only to all classes and conditions of commercial motor vehicles, but to their employment in the hundred and one different grades of roads and depots for which they are adapted. But, nevertheless, records must be kept, so that it is possible for the trader to see whether they are being run at a loss. A table of carefully considered average figures, classified under such headings as are considered suitable for any owner to employ for his own purpose, is reproduced inset, by kind permission of the Leyland Motors, Limited. The trader can easily arrive at his own exact results by modelling his own accounts on the figures and columns given.

How to Record the Deliveries.

Recording the deliveries can best be done by having delivery notes printed on the lines of the form shown opposite.

The trader should write these notes in duplicate, then when the driver returns his copy duly signed

APPROXIMATE COSTS OF WORKING FOR STEAM AND PETROL MOTORS

NOTE.—These costs are based on 250 days to a year and 5 days to the week. The figures are quoted as a guide only, and are based on recent costs.

6-TON PETROL.				5-TON PETROL.				4-TON PETROL.				3-TON PETROL.				2-TON PETROL.				† 6-TON STEAM.		‡ 6-TON STEAM.						
	Column No.	1	2	3	4	5	6	7	8	9	10	11	12		13	14	15	16	17	18	19	20	21	22	23	24	25	
(1)	Miles per day	40	60	80	100	40	60	80	100	40	60	80	100	(1)	40	60	80	100	40	60	80	100	30	40	40	50	60	
(2)	Cost—Chassis (with tyres, platform, & cab)	£1170	—	—	—	£1115	—	—	—	£1010	—	—	—	(2)	£895	—	—	—	£780	—	—	—	£1280	†	—	£1100	‡	—
(3)	Rubber tyres (on a basis of 10,000 miles)	*£78	£117	£156	£195	*£56	£84	£112	£140	*£52	£78	£104	£130	(3)	*£39	£58·5	£78	£97·5	*£35	£52·5	£70	£87·5	£87	*£116	*£78	£97·5	£117	
(4)	Interest, 5 per cent	£58·5	£58·5	£58·5	£58·5	£55	£55	£55	£55	£50	£50	£50	£50	(4)	£45	£45	£45	£45	£39	£39	£39	£39	£69	£69	£55	£55	£55	
(5)	Depreciation, 15 per cent	£175·5	£175·5	£175·5	£175·5	£165	£165	£165	£165	£150	£150	£150	£150	(5)	£135	£135	£135	£135	£117	£117	£117	£117	£207	£207	£165	£165	£165	
(6)	Renewals (per year)	£70	£80	£90	£100	£60	£70	£80	£90	£60	£65	£75	£85	(6)	£55	£60	£70	£80	£50	£60	£70	£75	£100	£120	£100	£120	£140	
(7)	Driver (70/- per week)	£182	£182	£182	£182	£182	£182	£182	£182	£182	£182	£182	£182	(7)	£182	£182	£182	£182	£182	£182	£182	£182	£182	£182	£182	£182	£182	
(8)	Oils and grease (per year)	£20	£25	£30	£35	£18	£23	£28	£33	£16	£21	£26	£30	(8)	£15	£20	£23	£27	£14	£18	£21	£25	£35	£50	£45	£50	£55	
(9)	Insurances	£24	£24	£24	£24	£24	£24	£24	£24	£24	£24	£24	£24	(9)	£23	£23	£23	£23	£23	£23	£23	£23	£28	£28	£26	£26	£26	
(10)	Petrol at 2/- per gallon	£200	£300	£400	£500	£166·5	£250	£333	£416·25	£142·5	£213·75	£285	£356·25	(10)	£124·5	£186·75	£249	£311·25	£100	£150	£200	£250	—	—	—	—	—	
(11)	Petrol consumption (miles per gallon)	5	—	—	—	6	—	—	—	7	—	—	—	(11)	8	—	—	—	10	—	—	—	—	—	—	—	—	
(12)	Stoker (60/- per week)	—	—	—	—	—	—	—	—	—	—	—	—	(12)	—	—	—	—	—	—	—	—	£156	£156	£156	£156	£156	
(13)	Coke (2/6 per cwt.)	—	—	—	—	—	—	—	—	—	—	—	—	(13)	—	—	—	—	—	—	—	—	93·75	£156·25	£104·25	£130	£156·5	
(14)	Coke consumption (miles per cwt.)	—	—	—	—	—	—	—	—	—	—	—	—	(14)	—	—	—	—	—	—	—	—	10	8	12	12	12	
(15)	TOTAL YEARLY COST	£808	£989	£1116	£1270	£726·5	£853	£979	£1105·25	£676·5	£783·75	£896	£1007·25	(15)	£618·5	£710·25	£805	£900·75	£560	£641·5	£722	£798·5	£957·75	£1084·25	£911·25	£981·5	£1052·2	
(16)	Cost per week (about)	£16·1	£19·8	£22·3	£25·4	£14·5	£17	£19·6	£22·2	£13·5	£15·65	£17·8	£20·2	(16)	£12·2	£14·2	£16·1	£18	£11·2	£12·8	£14·4	£15·9	£19·3	£21·7	£18·4	£19·6	£21·1	
(17)	Cost per day (about)	£3·2	£3·96	£4·46	£5·1	£2·9	£3·4	£3·9	£4·4	£2·7	£3·13	£3·56	£4	(17)	£2·4	£2·8	£3·2	£3·6	£2·2	£2·56	£2·9	£3·2	£3·86	£4·34	£3·7	£3·9	£4·2	
(18)	Cost per mile (about)	19·2d.	15·8d.	13·4d.	12·3d.	17·4d.	13·6d.	11·7d.	10·6d.	16·2d.	12·5d.	10·7d.	9·6d.	(18)	14·4d.	11·2d.	9·6d.	8·65d.	13·2d.	10·25d.	8·7d.	7·7d.	30·9d.	26d.	22·2d.	18·7d.	16·8d.	
(19)	Cost per ton-mile (loaded both ways)	3·2d.	2·63d.	2·23d.	2·05d.	3·48d.	2·72d.	2·34d.	2·12d.	4·05d.	3·1d.	2·67d.	2·4d.	(19)	4·8d.	3·73d.	3·2d.	2·88d.	6·6d.	5·12d.	4·35d.	3·85d.	3·09d.	2·6d.	3·7d.	3·1d.	2·8d.	
(20)	Cost per ton-mile (loaded one way)	5·76d.	4·73d.	4d.	3·7d.	7·1d.	4·9d.	4·22d.	3·82d.	7·3d.	5·6d.	4·8d.	4·32d.	(20)	8·64d.	6·72d.	5·76d.	5·2d.	13d.	10·14d.	4·23d.	6·93d.	5·56d.	4·68d.	6·66d.	5·58d.	5d.	

|| The costs per ton-mile loaded one way are about 10 % less than double those when loaded both ways, as there is less wear and tear on the tyres and less petrol used when running light.
 • The underlined price of tyres in columns 1, 5, 9, 13, 17, 22 and 23 represents the approximate cost of a set of tyres.

‡ With Rubber Tyres (5 m.p.h.) and a rubber-tyred trailer loaded with 4 tons.
 † With Rubber Tyres (8 m.p.h.) and no trailer.

No. 1. _____
 19_____
 Delivered per _____ Motor _____ Driver _____
 UNIVERSAL WORKS
 BY THE BRITISH TRADER, LTD.

No. of PACKAGES.	REF. No.	NAME.	ADDRESS.	WEIGHT.			RECEIVED IN GOOD CONDITION BY
				CWTS.	QRS.	LBS.	

NOTICE.

In order to comply with the Carriers' Regulations in case of DAMAGE or LOSS to any consignment, buyers must advise carriers and seller (in writing) **NOT LATER THAN THE DAY FOLLOWING DELIVERY.** If the buyer's non-compliance with the above causes any subsequent claim to be refused by the carriers, the entire loss must be borne by the buyers.

by the respective consignees, this note should be gummed or pasted opposite the original note, so that, in the event of a dispute, the trader can refer immediately to consignee's signature for the receipt of the whole consignment.

CHAPTER XIV

AIR TRANSPORT

IN conclusion of this section, a few words should be said on the subject of air transport and the various aspects of the commercial side of aviation.

Until someone invents a crude oil internal combustion engine, for use in connection with the driving of flying machines—one which will have the effect of reducing the cost of flying very considerably—aerial transport cannot be seriously considered as a competitor in the transport world. It should be noted, however, that the cargo traffic on the cross-channel air routes is steadily increasing, and that the rates for certain types of luxuries by air compare favourably with the rates by rail and sea.

For instance, an interesting item to commercial men is that the passenger fares charged by the Instone Air Line are equivalent to the first-class fare by rail and boat, if we add to the latter such details as taxes, gratuities, cabin on the boat, meals on the train, etc., for the air fare is an inclusive fare, from hotel to hotel, and there are no gratuities of any kind or description. The business man will find, therefore, that the two fares are equivalent, whereas, in point of view of time by rail and boat to, say, Cologne, some seventeen hours is taken, but by air the journey is performed in four. This goes to show the possibilities and potentialities of aircraft as a commercial means of transport.

How Goods are Dealt With.

The usual practice of air transport companies who carry goods by their air services is to collect the parcels from different agencies, convey them to the aerodrome by motor-car, and on arrival at the other terminus convey them by motor-car to the person to whom they are addressed. If the trader is interested in this sending of small parcels traffic to the Continent by air, he should make application respecting the scale of charges direct to the air company concerned. Certain Post Offices in London, and in the provincial towns, will accept parcels up to 11 lbs. in weight for despatch to Paris and Brussels by the Instone Air Line services, which leave Croydon aerodrome each week-day.

The parcels are normally delivered in Paris or Brussels on the day of despatch from Croydon, or on the morning after. By ordinary post, they would not reach their destination until two or more days had elapsed in the case of Brussels,

and five or more days in the case of Paris. Full particulars respecting these Air Mail and Air Parcel services can be obtained upon application to the local Post Office, or by applying direct to the Secretary, Air Mails, General Post Office, London, E.C.1.

The Transport of the Future.

There is not the slightest doubt that aerial transport is the transport of the future. Even to-day, we find everyone clamouring for speedy transits, and, where speed is concerned, no other form of transport can in any way compare with the speed of the aeroplane. Once an aeroplane leaves the ground, there is nothing to stop it—that is, it goes direct to its destination without any hindrance or impediment; hence the writer's conviction that soon after the heavy operating

costs are overcome, air transport will assume predominance over all other methods of carriage.

It is up to the trader, therefore, to take an intelligent interest in this coming revolution of transportation—a revolution in which the motor vehicle and the aeroplane will first derelict our railways, after which the struggle for mastery will continue until the air machine will finally drive road transport out altogether. Of course, the writer does not suggest that motors and railways will be non-existent, but that people will tolerate them in the future just as they tolerate our present canals. For local deliveries, the small motor vehicle will probably remain better than the aeroplane, just as the railway train will be better than the airplane for the transport of iron ore, coal, etc. But for general transport work, the aeroplane will soon reign supreme.

SECTION 30

Commercial Travelling

By ALBERT E. BULL

CHAPTER I

INTRODUCTORY

ALWAYS the chief problem of commerce is how to sell the goods. The measure of a man's success in finding markets is usually the measure of his success in all his business.

Were one to put the question to any hundred successful traders, selected at random: "What is the chief difficulty in the way of doubling your business?" it is almost certain the answer in the majority of cases would be: "The task of increasing our sales."

Business is Salesmanship

Make a tour of London or any British town, and enquire of the men in trade: "If your business were to be doubled, would you find it hard to obtain supplies?" In nearly all cases the reply would be that not twice, but twenty times as many goods could be obtained with comparative ease.

"What about warehouse space, workmen, clerks, packers, machinery?" it might be asked.

The answer would almost certainly be: "We can get all the help and accommodation we want for a multiplied business quite easily."

Even capital is not impossible to obtain where the firm has a reasonably successful history.

Salesmanship—that is *profitable* salesmanship—is always the chief problem.

"I am going into business," said a youth about to leave school to a business man, "what is the chief thing I ought to learn?"

"Learn how to sell," was the reply. "It is the foundation of all commerce."

So it is. This does not mean that the man who is the best salesman is the most successful man in trade; or that selling is the best paid occupation, for organizing power and all-round business capacity are much more likely to lead to profitable results. But without the steady flow of trade, which results from capacity to sell goods, the business organizer has nothing to organize, and the man of all-round commercial capacity is stranded high and dry like a ship on a beach.

The trader's first real problem is how to create that steady demand that shall give him business to deal with. One may build the most elaborate engine in the world, but unless there be steam or

some other power to drive it, the work is valueless. A trader may be a prince among organizers, but his first clear call in trade is to find the means of creating demand, which alone can give him the business with which to deal.

Methods of Salesmanship.

There are three chief methods of salesmanship—

1. Commercial travelling, or going out to seek your customer;

2. Retail shop efficiency, or being in the line of shopping traffic, with premises and business so well arranged that the customer cannot avoid seeking you; and

3. Direct advertising.

The second and third subjects are dealt with in another part of this work.

CHAPTER II

TRAVELLING IN ONE'S OWN BUSINESS

COMMERCIAL travelling must be treated in this section from at least four standpoints. These are to cover the following cases—

1. The trader who begins to travel for himself.

2. Employing travellers.

3. Travelling as a means to establishing one's own business with traders' risks.

4. Travelling as a business without traders' risks.

The Trader who Begins to Travel for Himself.

Here we presume that a trader who has already established a business comes to the time when he decides to extend his operations by means of commercial travelling. For convenience we assume that he has no previous experience of "the road" (as commercial travelling is called). He wishes to feel his way into the work, and is in a better position as regards both time and capital, at least at first, to travel himself, than to employ others.

There are many such cases in trade. The retail tradesman, for instance, who has already established his shop on such lines that it can run smoothly with only occasional superintendence, and who is already handling special lines of goods

in which he has sole rights for the neighbourhood, often looks lovingly upon the openings for wholesale trade.

Or it may be his trade has its busy seasons with long, blank periods, during which his energetic nature is appalled by the waste of precious time.

Or, in order to buy certain goods to advantage, it may be necessary for him to purchase larger parcels than he can use in his own business.

Or, the limits of business having been reached in one direction, it has become necessary to search other avenues of expansion, and travelling attracts him.

It would be possible to multiply instances indefinitely. A great number, if not the majority of the famous wholesale and manufacturing firms of to-day, grew out of retail shops. Trading conditions have greatly changed, but this process is still going on, and may be as important a feature of the future of commerce as it has been of the past.

Two kinds of experience equip the good traveller—

1. Knowledge of outdoor salesmanship, and
2. Knowledge of subject.

The man with whom we are now dealing is presumed not to possess the first qualification—but obviously he possesses the second.

It is a good thing for anyone beginning a new course of action to remember his strong points. In this case the strong point is the knowledge of the subject.

When a man is selling an article wholesale, which he can warmly recommend because he knows from experience that it will suit the retail trade, he has an enormously strong argument. This is his trump card; he can see the trade from the retailer's point of view, and he should never forget the advantage this gives him.

The man who begins to travel, and who finds himself selling against men who know all about how to approach a customer, and how to carry through the difficult task of selling to a buyer on his own premises, is apt to regard himself as handicapped.

But there is no need for this feeling. It is not even wise for him to try to copy the methods and mannerisms he has noticed in the salesmen from whom he buys. He has a very strong case and should use it with simplicity. He should forget all he has ever heard or imagined about the professionalism of salesmanship, and place himself right alongside the trader to whom he wishes to sell.

Just think of any of the arguments he could use—

"I've got the sole buying agency for Dibley's Tea in this neighbourhood, and I can't give them a proper return from my one shop. I find the tea sells well and is a good line. In fact, we use

it ourselves at our own table. It allows the shop-keeper an average of 17½ per cent, and once in, it brings regular trade."

Or, again—

"I have been making this line in my warehouse out behind the shop and I sell 5 cwt. a week over the counter in High Street, and the trade is growing so quickly that I have to get help to make it.

"That puts me in rather a difficulty as my output now must be at least a ton a week to make it pay, and I can't sell all that in my own shop. I am sure if you take it up, it will pay you, as the line is known and you have the advertisement of the trade I am already doing in High Street."

Or, again—

"I'm Dilwyn, the owner of the cycle shop in Market Square, and I've got hold of a new, simply applied bicycle-brake. It struck me as so good that I have secured the agency for the whole district."

Objections met with.

The retail trader, who is striking out into the wholesale trade, and who is obliged to begin his operations quite near his own shop, will certainly have objections to meet. He will be calling upon men who are possibly his opponents.

"Why should I buy from a trade rival?" is one question he may hear.

The answer to this is obvious—

"This is not an act of rivalry. The logical consequence, if it proves successful, is to take me out of retail business altogether. I must extend my trade, for I have more energy than I am using and my necessities drive me. Some retailers would extend by opening branch shops, I am choosing a course that does not add to retail competition."

Or, again—

"It is precisely because I am a retail dealer that I am qualified to sell to other retailers. I know to a fraction the selling value of the lines I offer, because I have the best of all possible evidence on the subject."

Practically all reasonable business men admit the right of any trader to extend his operations, and though some may quibble they cannot, deep down, discover the contravention of any trade custom in an act of enterprise.

Here is another objection—

"We are both retailers—I can buy as well as you."

And the answer—

"Probably better in some lines. I am always open to buy bargains myself. If you come upon any special line that you can offer me to advantage, let me know and I'll buy. But my present case is this, that I have a line to offer you that will pay you and suit your trade, and it is up to you to put prejudice entirely on one side and weigh the proposition only on its commercial merits."

The man commencing to travel for himself, is often able to do what an ordinary traveller usually cannot do. He can see the proposition from the buyer's point of view. At all events this would probably be the case at the start.

Later, as his wholesale business grows, and he may add other lines with which he is not so familiar, he may lose a great deal of this advantage. But he should never change this attitude of mind.

overhear any business conversation. This is a fair sample of what is expected of a traveller.

The buyer is, after all, a human being, and the more human and ordinary the method of addressing him, the better. On a first call it is well to get to business right away, or as soon as the first opportune moment arrives. There need not be abruptness, but there is rarely any advantage in delay.



Photo lent by

Messrs. Fredk. Sage & Co., Ltd.

A DESIGN FOR A BUTCHER'S SHOP

(Carried out in light french-polished Japanese Oak with vitrolite fascia with Oak fret-cut letters. Window bottom, riser and shelf at the back in Sicilian marble.)

His power of entry is that of comradeship and mutual understanding, which need not be lessened even when he becomes a dealer in goods with which he is not so familiar.

Simplicity and Directness in Approach.

There are practically no rules of etiquette on the road. There may be certain customs, most of which are not arbitrary, but such as natural good taste would suggest as reasonable. For instance, there is the unwritten law that, when one traveller is doing business in a shop, another shall stay outside, or at all events sufficiently far off not to

The salesman has usually two opportunities for doing business during the course of a call, if he takes care to get to his subject early. The method of a certain popular Midland traveller always followed a rough general plan, which he was rather fond of explaining, and this explanation may be useful here.

"I make it a rule," he said, "to get into my subject right away. I open my case of samples, I argue prices and terms, I show advantages, I give the buyer a sense that I don't want to waste his time, and that I am a busy man out to do trade. That part of the work may hit or

miss. Very frequently it misses. Then I do up my parcels, and get to the social part of the talk. I have usually one or two good stories to tell, and I know by a kind of instinct, how many minutes my listener has in which to listen. (One must be careful not to over-do the social part; it is a bad thing to get the name of being a time-waster or a man difficult to get rid of.)

"Then, as I seem about to go, I come out with a quick repetition of the best argument I think I have used in the previous business talk. Probably I have a sample just handy.

"'You may just send us a couple of hundred-weight' can easily be the effect of this second attack. And once started, the buyer may go on, 'as you are sending I would just like a look at those sixpenny goods again.'

"And a good order is taken—apparently as an afterthought."

In some districts it is surprising how large a proportion of a traveller's business seems to come to him in this afterthought kind of way. The moral is, give a man a chance to buy up to the last moment you are with him.

There are some people, however, to whom these words do not apply. These are the men, who having said "No" really mean it, and who are inclined to show some indignation if their definite decision is questioned, by any attempt to reopen a closed subject.

Imitating Methods.

The man who has himself been a buyer, and who sets out to be a traveller, sometimes makes the mistake of trying to copy the methods he has seen in successful operation. Thus, because Jones who calls upon him always tells him funny stories, he has a sense that unless he stocks up his own mind with copious columns of *Tit-bits* and *Coles Fun Doctor*, he is not properly equipped for his work.

Now this may be entirely wrong. Jones may tell funny stories because he is a funny man, and may have no soul above the latest joke. He may be just as humorous when reproving his son for missing school or when arguing figures with the income-tax man. Jones may succeed because he lets himself go in a natural way. He may sell heavily upon the road because of his funny mind, just for the same reason as he may have lost even better indoor appointments, because he never would be serious.

To go out and imitate Jones is folly. But the lesson of the man's success may be learned. He does business because he is obviously himself when he is selling, succeeding in breaking through all embarrassing barriers of restraint. He is as much at home in the buyer's office, as he would be in his own front parlour.

There is a story told that a certain editor who made a speciality of giving good advice to

perplexed readers, was asked by a loyal admirer to recommend a cure for shyness.

The editor did his best, but the reader must have felt the advice that was given was strangely inadequate, for the remedy proposed was that he should "adopt an easy and unconstrained manner, especially when speaking to strangers"—precisely what the poor fellow wanted to do.

It is easy to advise the inexperienced traveller to be natural, but it is advice that means nothing, for those who can follow it don't need it, and those who are constrained in manner are not helped by being told to be free and easy.

The beginner can simplify his task by regarding it as simple. There is a rather quaint idea abroad that a traveller must cultivate a proper manner of approach, just as a young doctor must cultivate an appropriate bedside manner. This is sheer nonsense. There is no etiquette of the road other than that dictated by ordinary courtesy and good sense.

The man who puts his name above a shop door or on an office brass plate, by that act invites any interested trader to enter and discuss business with him. He is the host: the traveller is the invited guest. This is a point often lost sight of. There is no need for an introduction. The man who puts his name and business in a public place has introduced himself.

Get the Commercial Points Right.

Business is the reason for your call. Get the business argument right, and blunder into it somehow. Don't trouble if you stammer or make a bad impression, or get your case into a tangle; after all, it is the other man's duty to disentangle the argument if it seems a little involved, and if it contains a prospect of profit to him. But get your whole case before him if you can—fully, completely, backed with every argument likely to tell.

Getting the business proposition right is of first importance. If all you have to say to a particular buyer is that he may as well buy from you as from anyone else, you have practically no case. Trade is very complex, and is continually changing in character and need. In all the hundreds of ways in which the service of commerce to humanity is being performed, new opportunities continually open of doing some business task rather better than it has been done before.

You have to find that new method, and that when it is found it is your commercial proposition.

You have to show that there is an advantage somewhere in the man you are calling upon trading with you. There must be one or you are wasting your time in calling upon him. The effect of competition is to secure that trade as a whole shall be economically carried on to the advantage of all. The process by which complete efficiency is obtained and by which business progresses,

depends upon the whole multitude of traders discovering those places in which their particular work can be of the best value, and these places are nearly always revealed by the fact that they are profitable to someone to discover.

Credit and Poor Payers.

The trader who commences to travel upon his own account, will quickly find that the easiest people to sell to are those who are the least worthy of credit. As he has had previous experience of business the fact will not astonish him. In all probability he will be able to detect the symptoms of poor pay, almost instinctively and to act accordingly. People do not shut up their natures and their history entirely within themselves, and what a buyer is, is usually written, not only on the appearance of his shop but on his own person.

The trader for himself, is at a disadvantage compared with the regular professional traveller in one respect. The man who is travelling all the time, and who constantly rubs shoulders with other travellers gets to know the standing of those buyers with whom he is likely to do business. Behind him, again, is the firm, with a system of enquiry or certain rules about new accounts, or an old knowledge of the traders of the district. The traveller and the firm constitute a double check upon credit.

The trader selling for himself must rely on only one judgment: his own. There are agencies that give information about buyers, but the difficulty about these is one that specially impedes the man we have in view.

Beginning for himself, he will probably be calling on quite small buyers, and though a traders' protection agency may be fairly accurate in deciding whether a firm is good for £10,000 credit or should be limited to £500, it has not always the same degree of usefulness in advising upon very small accounts where credit would not exceed more than a few pounds. The small shop trade of England is peculiar, and many a little dealer is quite a satisfactory customer where he is studied and "nursed" and the account carefully watched, who would offend against all the rules by which a man's business standing is rated by advising agencies.

As a rule, where small shop trade is being done, the wholesaler can only act from experience. He will not be wise to take too heavy a risk till he has proved the customer's ability to pay in smaller transactions, and in all cases he will be the more useful kind of trader if he does not allow long credit.

The trouble about bad payers among small shopkeepers, is that often they linger on in a state of semi-insolvency for years, snatching at any parcels of goods offered, and postponing or avoiding payment by methods of delay that at

last wear out the patience and cause the debt to be wiped off as hopeless. Attempts at recovery by means of law in these cases are usually futile, costing more than can be obtained.

This, of course, must not be read as a general charge against small shopkeepers, the large majority of whom are very hard working and honourable people. The small shop is so easily the refuge of those who have only the most chaotic or hazy notions of business, that it is no wonder that a certain proportion of them turns out unsatisfactorily.

It may be that a man, branching out into wholesale business or taking up travelling as an extension of a trade already being done, may not call upon small buyers at all. A man with a large retail shop or a number of shops, who is manufacturing some special commodity, in finding a market for such extra quantities as it would be economical for him to manufacture, may boldly seek for large and substantial buyers from the start, reasoning that if this branch of his business is to grow into his principal enterprise, he had better get it upon those lines in the beginning that he intends to follow out more completely later on.

In such a case he has the ordinary means of discovering the standing of buyers, at his service.

It is here, perhaps, worthy of note, that there are business men who rarely or never enquire into a buyer's status, preferring to be guided entirely by their own judgment, and feeling their way with small risks, before they involve themselves too heavily.

"Never once," said one traveller, "have I given credit to a customer on any other ground than my own decision, arrived at by seeing the man himself in his own place of business, and my firm has never questioned my opinion."

Changes of Work.

The trader who begins to add travelling to his other activities will almost certainly find that the transition from indoor to outdoor life is rather straining, and that two entirely different sets of qualities are needed in the two occupations. It is often stated by regular travellers, that they are not really in the mood for doing their best work on Monday, or at all events till they have made several calls. There is a tuning up or a tuning down (according as it may be regarded) about travelling that seems necessary in some cases after any break of more than a day or so. The traveller takes a little time after such an interval to feel himself in the swing of things. He becomes like the sailor who suddenly finds his sea legs again, or the old cyclist who has not mounted a machine for years and has a few puzzling minutes before he can get back to his old ease once more.

The trader who cannot arrange his outdoor business to get some of this temperamental advantage, is always selling under difficulties.

It is all very well to say to him, "You must try to feel yourself in quite a different element when you go on the road." With the cares of his home business upon him it is doubtful if he will ever be able to travel with the same detachment of mind that belongs to the ordinary commercial.

But there is something in taking advantage of plan and arrangement. If, for instance, he is intending to spend three days of the week in his office and three upon the road, he will be wise, if it is possible, to take the three days of each week in a bunch and not make them alternate days. In three consecutive days he has time to get into the full swing of travelling, even if he does look into the office morning and evening, to see that things are going on all right.

And this same fact is equally applicable to indoor work. It is very difficult when one is in the atmosphere of salesmanship, and living, as it were, in the freedom of the road, suddenly to take up the threads of office routine in any way that is other than advisory.

There are some fortunate men, however, to whom these words would not apply. They have minds capable of swift adjustment. Such are fortunate.

Some general points on travelling are dealt with later in this section, as they have a bearing on general circumstances of the road, and are applicable to other travellers than those instanced here.

CHAPTER III

EMPLOYING TRAVELLERS

THE next subject that comes in this section is the employment of travellers, and for convenience we assume that the employer has had no experience of travelling for any one but himself.

Travellers are usually employed from one of two reasons—

- (a) They are known to the employer, or
- (b) They are known to the customers.

In a great many cases the traveller is already a member of the staff and a man in whom the firm have some confidence, and who, they think, will become a good representative.

In other cases the traveller obtains the position because of the connection he is able to bring with him.

Appointment.

Two chief methods of appointment are—

- (a) To appoint a traveller when there is a vacancy; and
- (b) To create a vacancy whenever a good man is found.

The former method is obviously necessary in a highly organized concern, but where the system

is sufficiently elastic, the latter is the more businesslike and common-sense. The opportunity to get a good man for this kind of work should never be lightly regarded, for filling a post willy-nilly with the best material to hand too often means a sacrifice of sense to system.

The trader who is taking his first adventure in the difficult task of selecting a traveller, should avoid acting simply because he has decided upon such a change. With him, at all events, a proper selection is worth spending time over. Unless driven by circumstances to act at once, he had better carry his resolve around with him on his journeys awhile, and keep his eyes and ears open.

It may be advisable to let his purpose be known and talked about. In this way he may get to hear of suitable people, and get to learn the opinions of buyers. Applicants, too, may approach him.

"Decide slowly . . . act swiftly and keep your council meanwhile," advised an old trader. But surely the advice is wrong when applied to selecting the first traveller.

It may be that our trader has a traveller in mind when he first fashions the resolve. The fact that he has himself been doing outdoor business is evidence that he has a trusted colleague or employee who has supplemented his work inside. He has, perhaps, the assistance of a grown up son or younger brother, or some excellent youth of promise who has been his right-hand man for months.

Obviously in such a case, an experiment is hardly dangerous. If the assistant is a failure on the road, in all probability he will afterwards be a better man at home for his experience. Knowing the trade from within, he would almost certainly create interest and sympathy even if he did not bring much business.

Methods of Payment.

There are three main methods of paying travellers—

- (a) Salary and expenses.
- (b) Commission and salary or commission guaranteed not to fall below a certain weekly sum.
- (c) Commission pure and simple.

The first traveller a firm puts out is usually a local traveller, and, for a local trade, a salary is nearly always the most satisfactory method of payment. A firm can act more boldly in making a choice, because a local trade is more quickly judged and less likely to be damaged by bad work than business scattered over distant ground.

The usual custom, too, especially in large provincial towns, of the traveller attending at the office at least once in the day, brings him in close touch and his methods and activities come in for easier review.

Between the town traveller and the country traveller there is a great gulf fixed. There is not the need for the same brilliance in the first case,

as the number of calls has usually a close relation to the amount of business done. Town travelling is often the apprenticeship to country travelling, the work at which the promising youth begins.

Rates of Payment.

Of scales of pay it is difficult to write, in the present condition of wages and salaries. But a

method which leaves them with freedom of action. But in opening up a trade, a man should not hamper himself by adopting any plan in the least degree involved, or likely to tie him in future arrangements.

The Commission System.

Quite frankly the commission system *is* rather involved, in spite of its apparent simplicity. It



A CORNER OF A COPPER WIRE WORKS

fairly safe rule to adopt in sending a young man out from the office, would be to take his office salary as a basis, and arrange a sliding scale of commission on the business done, which with reasonable success would add 50 per cent to it, and with great success would double or treble it.

When extensions are made into the surrounding towns and ground at a distance, the problem of employing travellers becomes greater, and the subject of general policy must seriously be faced.

If possible, it is better for a beginner in business to employ all his first assistants upon the whole-time salaried method. There are advantages in some cases in paying travellers upon a commission

is not necessary here to give more than one illustration to indicate this fact.

A man starts a wholesale and manufacturing business in Bristol, working that city first by his own efforts, later by a paid traveller subsequently increased in number to three.

He begins to think of trade in the surrounding counties, and comes to terms with a commission traveller who already holds three good commissions, who travels the near counties. This traveller is a solid, steady plodder, and a fair-to-medium trade results.

The business grows. The trader begins to send his paid men to Liverpool, London and the North, getting others in their places; his small factory

expands into a great hive of industry. Trade springs up all over the land.

But the slow, plodding methods still go on in the near ground. The commission traveller has his three agencies, and he can't upset himself because the manufacturer's business makes a good fourth. If he sells a parcel or two in a large town or the whole of a Welsh valley he is satisfied.

He was the first country traveller, so he cannot be very well disturbed or treated unfairly. Hence it comes about that the manufacturer, with his big factory to maintain, is practically barred off the near ground where carriage charges are low, and where other Bristol manufacturers are getting their best harvests.

A Confession.

Here seems the right place for a personal statement of the writer of this section. It must be taken as entirely personal and after all, only one expression of opinion.

Were the writer a manufacturer or a wholesale trader, he would never employ a traveller upon any other system than that of whole-time salaried service. Were he a traveller he would be reluctant to touch any salary or any arrangement that did not allow him full liberty of action.

The point is that every man in trade should endeavour to obtain as much freedom as he possibly can. The employee may be forced to sacrifice a certain amount of liberty in order to obtain his living. But the employer has no such compulsion. By engaging men to travel for him who are not entirely devoted to his interests, he is giving up some of his own freedom. At a time when his works may be starving for orders his commission men may be neglecting to mention his name to their clients, simply because they are in the middle of their busy season for another line, or trade is so quiet that it pays better to take a holiday, than to continue travelling.

The advice given here is: employ paid travellers, and paid men only. Be a master of every part of your business. In this way have the great trading firms been built up, and in this way will the future business of the world be done. Scattered interests may pay the man who does the scattering, but they do not pay the man who supplies the interests.

Commission Men.

Should it be resolved, however, to employ commission men, the trade should be planned with a view to the ease of their work, and so as to get the best effects out of their methods. The endeavour should be made to get hold of those travellers who already represent firms of standing, so as to ensure that they have the entry to good buyers.

All attempts at making a large variety of kinds for this class of work should be boldly cut out.

The plan should be to produce a few simple lines with fixed unvarying prices, such as, once introduced, will command a steady and continuous sale.

The commission traveller, especially when he is representative of more than one house, very rarely spreads his attention over a large range of samples. His inclination is to pay generous attention to the best selling articles.

In dealing with commission travellers, regularity and promptness in paying commission payments is vital. If the total commission for the week is only two and threepence, send it on! It is revealing no secret to state that the commission traveller at some time or other in his history has had more trouble and inconvenience in getting his payments from his firms than in collecting accounts from customers, and he has confidence in the house that pays promptly.

Always treat a commission traveller with the courtesy you would show to a customer, and get in the way of regarding him as an independent trader. He has his trading difficulties, and it helps him to feel that those for whom he is selling will treat him as a friendly ally.

Frequently an arrangement is made with commission travellers to pay a small sum weekly as salary or as an allowance toward expenses. The object of the salary is to secure some kind of hold over the man who may be handling money. It is a problem as to whether this method is ever worth while, as dishonesty is never checked by legal fictions of this kind. The records of the road are usually very admirable in this way. The well-paid traveller is usually to be trusted with heavy sums. Where some men get adrift in money matters is in trying to sell goods without any demand, on terms that are entirely unworkable. The danger of employing commission men is that one may give the agency to a man who is trying to do the impossible, and whose affairs will in consequence sooner or later get into difficulties.

While upon this subject, it may be useful to some people to know that most insurance companies will insure business firms against loss through its representatives. The insurance takes the form of a fidelity guarantee, and each traveller has to be insured separately. Once the risk is accepted by the insurance company the firm fixes the amount it wishes covered, and pays the premium.

CHAPTER IV

WHERE TRAVELLING INTERESTS THE TRADER

THE aspirant for success in his own business is chiefly interested in three phases of the subject of commercial travelling—

(a) Travelling for himself, inasmuch as he is

working on commission, agency terms, brokerage, or division of profit, but supplying other firms' goods.

(b) Travelling for himself as the salesman of his own goods.

(c) Employing travellers.

Travelling an Opportunity to Trade for Oneself.

Commercial travelling constitutes one of the best means of becoming an independent trader that business offers. The reason for its popularity in this respect, is that little or no capital is required by the man of outstanding ability. If he is in a position to finance his first round or two of journeys so much the better, but even this is not an absolute essential. The opinion of those who have had long experience of the road is that a traveller, even working on commission for himself, should never be obliged to pay out more money week by week than he receives from some interested source.

The point is this: the man without money who means to seek independence by travelling is practically forced to engage in operation on behalf of some firm or firms. He is bringing them trade, possibly introducing them to new clients who will continue to buy from them even should he have left them. It is reasonable he should be paid for this work as he goes along, and, provided he is the right kind of man, there are many firms who will give this kind of support.

Let us be perfectly clear about methods of this arrangement at the beginning. There is nothing underhand or wrong about an arrangement in which a man helps himself by helping others. When a commission system is agreed upon between a traveller and a firm there is a kind of partnership formed, for mutual benefit.

The firm is able to reason: "This man is going to sell our goods so as to help himself on his feet. As long as we get good business we don't mind taking a small weekly risk. Maybe he *will* get on his feet and leave us: maybe he *will* get to like our work and our commission cheques, and become our best outdoor man."

What pays the firm and pays the traveller should be a charge upon both. If the traveller gives his time, it is reasonable the firm should advance the money.

As in this sub-section we are dealing with the man who gets into his own business by becoming a traveller on commission, it is rather important here to regard the different methods by which travellers are paid from this point of view, and which of these are the most suitable for his purpose.

The Paid Servant.

There is the paid servant, the man who draws his salary and expenses, and who is as much tied to his firm as is the book-keeper or the manager.

Obviously, such a man must change his arrangement, if not his firm, before he can begin to take steps toward making travelling a means toward his end. The paid traveller can approach independent business in any other way his agreement permits. We hear of travellers who build up prosperous retail concerns, by financing the operations of wife, son, or daughter, and also of travellers having ways of investing their surplus income, that lead finally to their being able to step into their own business. But this is not part of the present consideration.

The man who is beginning to make his own stand as a trader in this way must have some freedom of action.

Freedom of action is not given in all commission arrangements. Some of the very best firms who sell their goods on this method bind their representatives down with rather severe conditions.

There is, for instance, the traveller who is not allowed to represent any other firm, and who, though paid by results, is expected to give his whole time and attention to the firm's salesmanship.

Where an arrangement of this kind is made there is usually a guarantee on the firm's part that the traveller shall have a minimum weekly cheque. It is practically a salary and bonus system.

Some firms make it a condition that they shall know and approve what other business their representatives are doing. Some, again, will not allow their agency to be held by anyone who is trading on his own money or credit.

But a large number of firms do not tie down a commission traveller in any way. As long as they get business they are satisfied and will not interfere.

Easy Roads Get Crowded.

"The Road" as an entry to one's own business is an ideal way for the man of good business capacity, who has little capital. But its very ease causes its chief difficulties. What is the obvious way is the popular way, and popular ways in business are competed ways.

It would be all very well if a man could mark out such a programme as follows, and keep to it—

First Year. Get three good commissions and do heavy trade on other people's money.

Second Year. Get a firm to manufacture a line for me with my name on it and supply the goods, taking all risks and giving me my agreed profit.

Third Year. Line well in. Arrange to take trading risks myself, paying for goods and invoicing my own accounts.

Fourth Year. Start warehouse and pack the line of goods myself. Employ clerks and packers.

Fifth Year. Employ other travellers. Most

of my time spent at warehouse now. Starting to make the line.

Sixth Year. Making several lines. Trade booming. New factory bought.

Seventh Year. Limited. Public money. Trade flying up.

Eighth Year. On Birthday Honours List.

Now this is quite a pleasant programme, and possibly it can be kept to, but each of the tasks for which a year is allowed is usually ample work for a lifetime. Not least of them all is that first year's work.

Commercial travelling is constantly being taken up by men with quite as ambitious a programme as that indicated above, but the trouble with many of them is, that on the eighth year, when the baronetcy is due, they are still looking out for the first of the three *good* agencies.

"The Road" has a knack of being as long as the way to Tipperary. Its best rewards go to the men who have travelled it most persistently, and a good connection may take a terrible time to build.

"The man we do most business with," said the secretary of a great company recently, "called on us regularly every fortnight for seventeen years before he got his first order."

It takes a long time to get business going, upon a paying basis, even as ordinary travelling. When the connection has been made and the second step is to be taken, and after that the third and fourth, so that the aspirant may begin more definitely to trade for himself, much of the spade work has to be done all over again.

It is so with every change. More: there is a certain amount of loss of cumulative results at every advance.

The point is not that this method of getting into one's own business is impossible, but that the competition in every stage through which the aspirant passes is so great, that even the most capable man must nerve himself for very strenuous work to accomplish the result aimed at.

The Kind of Business Aimed At.

Travelling is "The Road," and a good road will take you anywhere. Many of the great wholesale firms of England are commercial traveller firms, in that they were founded by members of that body.

But the kind of business aimed at fixes the number of difficulties to be overcome.

Here are two questions—

1. Is it the aim to get to one's own place of business where one will possess factory, shop or warehouse, and it will be no longer essential to remain a traveller?

2. Is it the aim to remain largely upon the road, but trade upon one's own account, instead of as an agent?

One important step is involved in both these questions. The traveller, whether paid by salary or commission or any mixture of the two, is free from all problems of capital in the larger sense.

If he sells £300 worth of goods during the week, his financial problems are limited to the £10 or £20 which represent his own selling costs and income. The trader who sells £300 worth of goods in a week has to finance the whole £300.

The traveller who sold 10 tons of goods last week, may hope to sell 200 tons next. It means to him larger profits, and the meaning is not spoilt in any way by the fear that his capital will not permit of twenty-fold jumps. He is trading on other people's money and practically this is unlimited. If he can do enough business he has the capital of the world behind him.

The moment a man begins to trade in his own name, he is limited to his own resources of cash and credit. It is not easy for him, accustomed to trading on other people's money, to realize that he cannot trade for himself without making a contribution. This is not always capital, for he may find a firm which will finance him, but it is reputation, anxiety, and risk, at all events.

The bad debt is no longer "A nasty bit of news for the firm," but a "facer" for himself. The risky account is still risky, but it may be that the security of his own home is involved in it now. The cutting buyer is no longer a cause of wonder as to whether the firm can be induced to take the order; he is a cause for enquiry as to whether the order is worth taking.

The Agent Merchant.

We will now take an illustrative case to show how travelling can be used as a means of getting into a wholesale business account.

A person represents three firms, and travels over four counties.

By preference, and with an eye to the future, he has carefully called upon the type of retailer that would be termed "good second-class" rather than "first-class." He haunts suburban districts, busy side thoroughfares, and other places where he can find suitable customers. Bakers, grocers and confectioners are his clients. He avoids "stores" and plate-glass window shops.

He has got together a sound connection, for many of these small shops do a thriving little trade, and are solvent traders.

The time has come for him to act. He adds a fourth firm to his list.

But . . . in making this arrangement, he makes it on merchants' terms: that is to say, the goods are charged to him and he sends his own invoices to the customers.

He has a little money saved, but he does not intend to use it. "My journeys are every six

weeks, so I shall require two months credit" is his argument, and the terms are agreed to.

Purposely, the line selected is not a heavy one. At first he may restrict his sales to a few parcels a week, or the limit upon his credit may make a limit naturally till his money begins to come in.

The plan is successful. He has a very loyal connection, and customers are quite willing to

with a wholesale grocer. It is this young man who steps into the breach and who sees to the clerical work.

We can see the development. The travelling gets divided. Presently each has his round of journeys and "Box and Cox" is the game played at the office. Then the clerk and typist are engaged.

Next comes the bold move: the warehouse is



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trade with him under his own name. The goods come from the maker's factory direct, but the invoices and accounts come from the man they see.

He then adds another line and yet another. Soon he is selling direct parcels from a dozen factories and making merchants' profits and losses. He still retains his agencies, but these tend to diminish in turnover as the others increase.

Presently comes his first big problem: he cannot be outdoors or indoors all the time.

Fortunately he has a son, who at 20 years of age has already had two years' experience of trade

opened, packers are employed. Another step and maybe a factory will rise.

This is the romance of trade that has been dreamed by many and realized by few.

The Difficulties.

Let us deal with some of the practical difficulties of this kind of change.

The chief one is the problem of help. It is met in the present instance by there being a son to supplement and to co-operate. Unfortunately the traveller is not always so fortunate in this

way. He may have sons, but not of the right calibre to be his other self.

The traveller is not always a good teacher of business. Often he is not a good partner: his life accustoms him to playing a lone hand, and the very irregularity and freedom of his work will make it hard for him to inaugurate the routine of office and warehouse.

If all the work indicated above were to fall on one man, it would constitute a breaking strain. The man who has spent four or five strenuous days on the road, is not able to come back and polish off his office work with the energy and despatch it demands.

Collecting Two Kinds of Money.

The mixed business indicated above has this difficulty: that the man who carries it on is handling money of two kinds. He collects as a trustee on behalf of others, and as a merchant on behalf of himself.

The position is not at all difficult when all goes well, but should he be perplexed, as many traders are, over financial questions, his task requires great strength of will.

To put it quite plainly: the temptation to mix money is very great. The man who is embarrassed for a day or two but has a big collection due next week, and who need not remit his agency cheque at once, can easily get his accounts into a tangle, especially when he is working on an overdraft.

In theory, no likelihood of such a thing occurring seems possible when reasonable care is taken, but in practice the best intentions sometimes go adrift.

Where a man is carrying on this double trade, he should run two banking accounts and divide all money from the start, thus keeping his agency or trust sums distinct from his own.

"But supposing my customers pay me an account for myself and an account for a firm I represent on the same cheque?" someone questions.

Even here division is not impossible. There would be other payments in the course of the day. The point is to lodge in the agency account the total of the full amounts received on behalf of others as they are received. If by any chance there must be a transfer made from one account to the other let it be from the agency account to the merchant account, and not *vice versa*.

One's Own Business without Trader's Risks.

Some men who choose the road as a method of trading for themselves never intend to trade with their own money in the larger sense.

A commission business may be the intention of such an aspirant. There are commission travellers in this country so firmly established that they can get their own special lines made, and

practically control the policy of firms for whom they sell; all the time declining to take any greater risk than costs of salesmanship.

There are commission men who can declare, "I can stock a shop or a warehouse for you," and not one penny of the money is payable to themselves. They can send you goods from twenty firms, and bring in a separate account from each.

There are commission salesmen who become brokers, who pass from hundredweight carriage-paid lots to cargoes, by steady and progressive means, keeping out of merchants' risks all the time. These men are in their own business, and are masters of their own commercial actions.

Where a man has little or no capital, the commission business which leads to brokerage should be very carefully received before traders' risks are taken.

However good a man's credit may be, there is always a suggestion of doubtful morality in any arrangement in which heavy trading risks are thrown upon others by the man who has himself nothing to lose. Much, of course, depends upon the frankness and candour with which the case is stated to those whose money is involved.

The commission and brokerage method avoids all these intriguing problems of ethics. No responsibility is taken beyond the commission and the interested parties are able to protect their own property or decide their own risks.

CHAPTER V

TRAVELLING AS AN EDUCATION

EVERY man who aims at being the master of his own business should gain some experience of commercial travelling. It scarcely matters how short that experience may be in some trades, but it is of first value in others.

The trader who intends to open a retail shop may not find an intimate knowledge of the road so useful as a would-be wholesaler or manufacturer will find it. But even in his case, such experience is of great service. The man who purposes to engage in a trade in which outdoor salesmanship is a necessary part, can scarcely afford to do without the experience.

Selling under Difficulties.

Travelling tests and teaches, and herein lies very much of its value. The traveller is the salesman selling under difficulties. He has no aid from environment or atmosphere: he is thrown back all the time upon himself.

"I have been anxious to meet Mr. Rodley for two years," said a great London merchant a little while ago, speaking of a yet more important person in the commercial world. Now he has

invited me to call at his office, and I am obliged to decline the appointment."

"Why?" asked his friend.

"Because it is at *his* office instead of at mine. I have a very important proposition to make to Mr. Rodley, but I will not do so at the disadvantage of being out of my own premises."

This seemed a curious point of objection, and further information was asked.

"Don't you see," said the merchant, "when two men meet to discuss business, there is an enormous psychological advantage in being the host rather than the guest. You are at home in everything, while the other man is a stranger. The very roll-top desk before you is a friend to aid and sympathize with, and vote for, you. You are backed by your surroundings. You are the king able to grant favours: the other man is the suppliant, seeking them."

Now this merchant was speaking of a very important scheme in which large sums of money would be involved, and he would not run the risk of making his proposition in any circumstances not favourable to himself.

Incidentally he placed his finger on the chief reason why a certain amount of time spent in travelling may be good for a trader, and why beyond that time the effect may militate against his ultimate success.

Adverse Circumstances.

The traveller, all his time, is fighting against adverse circumstances. He is on the other man's ground, a stranger where the other man is at home. He has no atmosphere to help him beyond what he can create by his own personality. There may be five, fifty or five thousand employees or fellow-workers of the buyer to whom he is trying to sell, engaged in the same building. Their presence constitutes so many votes against him and so many votes in favour of the buyer in any case where opinions disagree.

Now this is a splendid test of a man's powers as a salesman, just as it is a splendid challenge to him to do his best. Life, on the road, selling against such odds, drives the salesman right down to primary acts of courage, independence and boldness.

Commercial travelling is salesmanship without backing. The qualities of personality are here discovered in their strength or weakness, and the man who spends a little time on the road is able to judge whether his powers of salesmanship are good or bad.

Selling is so important in business that it is very valuable to a man to know his own strength in this work, and from personal experience to be able to judge the powers of others.

In a business of any kind, when things are not going quite as they should go, it is often easy to detect every kind of weakness but this, and equally

it is often easy to correct any fault but faults in salesmanship.

Inadequacy in salesmanship is the chief reason for breakdown or feebleness in many trading concerns, and it is a reason that is not always obvious. Where a business functions well in other respects, and the organization is thoroughly good, an incomplete or a faulty system of selling may be a drag upon the concern for months or years without becoming apparent. Ultimately, however, it must have an entirely crippling effect.

The advantage of a trader being himself a practical salesman, is that he will more swiftly detect weakness in this respect, and thus prevent a breaking strain being imposed upon the enterprise as a whole.

The Educational Value of Travelling for the Trader.

The man in a shop or a factory cannot take stock every twenty-four hours. Practically, the commercial traveller can.

In both cases some consequences may be deferred, and hence difficult to value. A shop-keeper has to build a trade and a traveller has to make a connection, and it is not easy to tell what the effect of to-day's actions may be upon the business of twelve months hence.

But even admitting this fact, there is usually a closer connection between the day's efforts and the day's results upon the road, than is possible in any indoor organization.

A traveller is always doing work for to-morrow. He is calling this month on new people whom he cannot expect will buy largely till he has made his second or third or fifteenth call upon them. He is booking a small trial order to-day, that is valueless unless regarded as a sample lot sold to open a future valuable account.

But . . .

Even allowing for all this, the really successful man on the road swiftly learns to discount the future and live in the present. He wants Smith's order, and he wants it *now*. He becomes very dissatisfied if he merely leaves a good impression, or "eases the way to future trade," for he knows that "easing the way to future trade" is the most fatal malady a traveller's connection can suffer from.

"One would think my order was all the world to you," said a shopkeeper to a traveller.

"So it is," was the reply. "The psychological effect of my leaving your place without doing business would be that I would be weaker in my call upon the next man. Let three of you buyers turn me down and my nerve is shattered for the day."

Need for Patience.

The good traveller is quite able to take long views, and he knows the need for patience. He,

of all men, will not expect the tree to bear fruit the moment the sapling is planted. But he holds his faith in a sane and healthy proportion. It comforts him to hope that Smith will order ton lots next year, but that is no reason why Smith shouldn't order a hundredweight lot now.

Travelling is the work that makes to-day big. It rarely or never builds upon postponement. It teaches not only to strike while the iron is hot, but deals with the mystic arts of heating irons.

There are doubtless many men upon the road who do not obtain their best results at first. There are some who must call a few times upon a customer before they can do business with him at all. The most valuable connections have taken a long time to build, and travellers in middle life have opened accounts they first tried for in youth.

But the sense of immediateness is none the less very present even in the work that gains deferred rewards. If the day's work is only foundation-laying, it will be well laid.

A traveller called upon a shopkeeper and met a rather angry reception. He sought an explanation.

"I know about you and your firm," was the shopkeeper's statement. "I have been in business in this town for ten years, and you have never called on me before. I know what you do with smaller as well as larger buyers than myself. I take your action as personal."

The traveller explained.

"You must put it down to my way of trading," he said. "I am a salesman, not a district visitor. There are about fifty people in this town for whom my goods are suitable. I do with twenty of these. Those twenty are constant and regular buyers. Were I to pay a duty call upon the whole of the other thirty, my moral fibre would suffer. I should be unnerved for a fortnight. It would be impossible for me to call upon those thirty right off and give each one of them the fair statement my case demands, for I should get discouraged and feel that I was a stranger and an outcast long before I had seen half of them."

"When I first came to this town eight years ago," he went on, "I called on five people, two of whom bought. On my second visit I sold to two more of those five, and I called upon two other shops. I have gone on since in that way. Never, in any circumstances, will I have more than three people in my list of calls in a town of this size who are not customers. A man in the north of the town, whom I have vainly called on for twelve months, has just opened an account. That gives me a chance to make a new call. I have many times looked lovingly at your bright shop and marked you down for my suspense list. To-day a vacancy has occurred, and I am here."

"In that case," said the shopkeeper quite

struck by the force of the explanation, "I suppose I had better buy."

And he bought.

The Value of the Present.

Some travellers are scarcely able to work upon such lines. It may be that the conditions under which they carry a firm's samples demand that they shall call on all likely buyers. Others, again, may find that by a swift rush around they can easier judge the men worth spending time and effort upon. But even in these cases, the successful man will never allow himself to become entirely casual and superficial; somewhere or other he will realize that the time has come for concentrated effort, and treat the desired customer to a specimen of energetic salesmanship.

The writer knows of one exceedingly successful traveller who carried the idea of the value of time to extraordinary limits. If he did not do business with a man the first time he called upon him, he would never call again.

"Why should I?" this man would ask. "There are thousands of traders in the world. Am I to dance attendance upon them in the hope that one day I may gain some vague result from doing so? I discredit myself and my business by taking such a trivial view of life."

This was a very exceptional case, but there are many men who observe the spirit of the habit. "I think if a man will not do business with me by my third call," said one traveller, "that there should be a very strong reason apparent if I am to consider calling again."

Travelling does teach the value of the immediate present, and instils a dislike of postponement. In this way it is an intensely valuable training for one's own business.

When we hear of the results of hard work on the road coming back years later it is easy for us to look upon the traveller as the spadework-man doing deeds that will only have their full consequences later. In reality the capable salesman does not view his activities in quite this easy way.

He expects some almost immediate response, and if he is a successful man he gains it. A may travel the Eastern Counties ten years before he opens an account with X, and he calling on him all the time. From the point of view of X's buyer he is a wonderfully patient and hopeful person. But he hasn't been living on hopes all that time. He has been selling to other houses, and the call on X has been an extra call in the month's work, probably because his is a convenient place, half-way up the hill to pause awhile, or else he finds X's buyer possesses a particular bracing kind of temperament, which, business or no business, appeals to him.

This is a very curious fact about some men on the road. They like to have a call to make where there is little or no chance of doing business, but

where there is a chance of relaxing for five minutes. They may call on such a place for months or years without making any serious effort to do trade, and when business is opened, almost without their trying for it, they are as much surprised as pleased.

A Week's Work.

Travelling divides life up into compact little parcels of a week at a time, and each week has a

the best part. Most of the week's work must be completed by Wednesday evening, and if he gets fairly in the swing of it, the impetus may be relied upon to carry him on to the latest time he can call on clients.

This man carries his habits into any other vocation he enters upon. Let Tuesday morning come, and he will feel uneasy if his place is not humming like a hive.



By permission

Sterling Telephone and Electric Co., Ltd.

ASSEMBLY OF SMALL TELEPHONE SWITCHBOARDS
At the Factory of the Sterling Telephone & Electric Co., Ltd.

balance sheet of its own. Ordinary business does not do this quite so naturally.

The traveller who becomes a trader never quite forgets the knack of seeing a relation between the week's profit and the week's expenses. He has the sense that he must break into his heaviest work by Tuesday at the latest. Many a good traveller feels he may play about with work on Monday, because that "Mondayish" feeling is so hard to shake off. But when the ice is fairly broken he knows the early part of the week is

This compartment idea of life is a splendid part of training.

The Lessons of Failure.

The good traveller declines to accept a failure in one place as evidence that he must fail everywhere. Once he feels on his feet he gets in the way of reasoning: "If Brown won't buy, Smith will," and also, "If Thompson's goods are unsuitable for my customers, I will sell them Jackson's."

This is a splendid lesson for the man who

intends to trade on his own account. Such a man, not impatiently (for travelling teaches patience), but out of sheer simple common sense, will make discouragements his teachers, and work on obvious morals.

In travelling he necessarily learns to take wide views. Every buyer is to him an opportunity; and every line of goods a possible means of profit.

"What scattered accounts you have opened in Bristol," said a manufacturer to his trusted traveller who had been opening some new ground for him. "I know Bristol very well. Why, your shops there make a sort of star pattern with an account at the tip of each point and nothing in the centre. How did you do it?"

"I spent two days among the big people in the city," explained the traveller, and did nothing. "I would not leave the place without doing business, and as I felt low spirited I tried long tram rides. I reckoned about three pennyworth gave me just the vigour I needed to tackle a suburban buyer. That's how."

And "That's how" to the traveller who becomes a trader. When he can't sell in the city—he will try the suburbs.

Human Nature Problems.

The chief value of travelling to the trader is that it gives the sense of humanness in trade. He can never see an account as a dead thing with a ledger folio number. He will never lose the sense of flesh and blood behind every transaction.

Once that man has been on the road he will not forget that every need he sets out to satisfy is somewhere or other, a human need.

This characteristic may weaken his hand in places, and make him lose sight of the general rule, in concentrating on the particular instance. But on the whole the effect must be good. After all, if he cannot shape his plans to suit the single person, he can scarcely do it to suit a number of persons.

The temptation, too, to be too individualistic is quite as well overcome by a traveller as by any other trader. His very calling has taught him more than any one that there are cranks and eccentrics in the world: least of all, when setting out to supply a general want will he be led off on side tracks because he happens to chance upon unusual people in his first deals.

The man who has travelled knows the value of the human nature appeal, and as quickly as anyone, he can be relied upon to know if his efforts in any kind of salesmanship are on right lines or wrong. Instinctively he will know if his countermen are treating customers in the best way, and if his advertising matter has a note that will appeal.

Seeing Success and Failure as an Onlooker.

A very valuable part of the education of the road is the power it gives the traveller of studying success and failure with their causes.

Among his customers he knows the men who are succeeding and the men who are not, and after a while he can fairly accurately fix causes to consequences.

A traveller's prophecy about a trader is wonderfully accurate, as a rule. A man may think his business is succeeding—all his customers, all his creditors may think it. But the men who call upon him to take his orders scarcely need to think about the subject at all—they know.

They cannot tell if his will be a long drawn out tale of difficulty or a sudden, sharp collapse. They cannot tell if he will make one thousand pounds or fifty, but sub-consciously they know which way he is going.

This has much to do with what they see of the trader's manner, but it has also much to do with what they see of his methods.

It must be admitted that a man who has much of this kind of knowledge when studying other people, is not always able to apply its usefulness to his own case. This may be because he has set out to study such a subject with the application in his mind.

A traveller is apt to sum up people and their methods in a rather intuitive manner. It is always a logical process. He comes to a shop-keeper in his shop and after a swift glance around, sees failure or success written upon the destiny of the business. The reasons may lie all around him, but he does not go over them analytically. His trained mind simply leaps at the moral of it all.

That same traveller, starting his own business, may repeat almost all the faults he has seen a hundred times and yet not know he is doing so. He may have seen successful methods applied and yet not be able to reproduce them, and, more curious still, be unaware of his own inability.

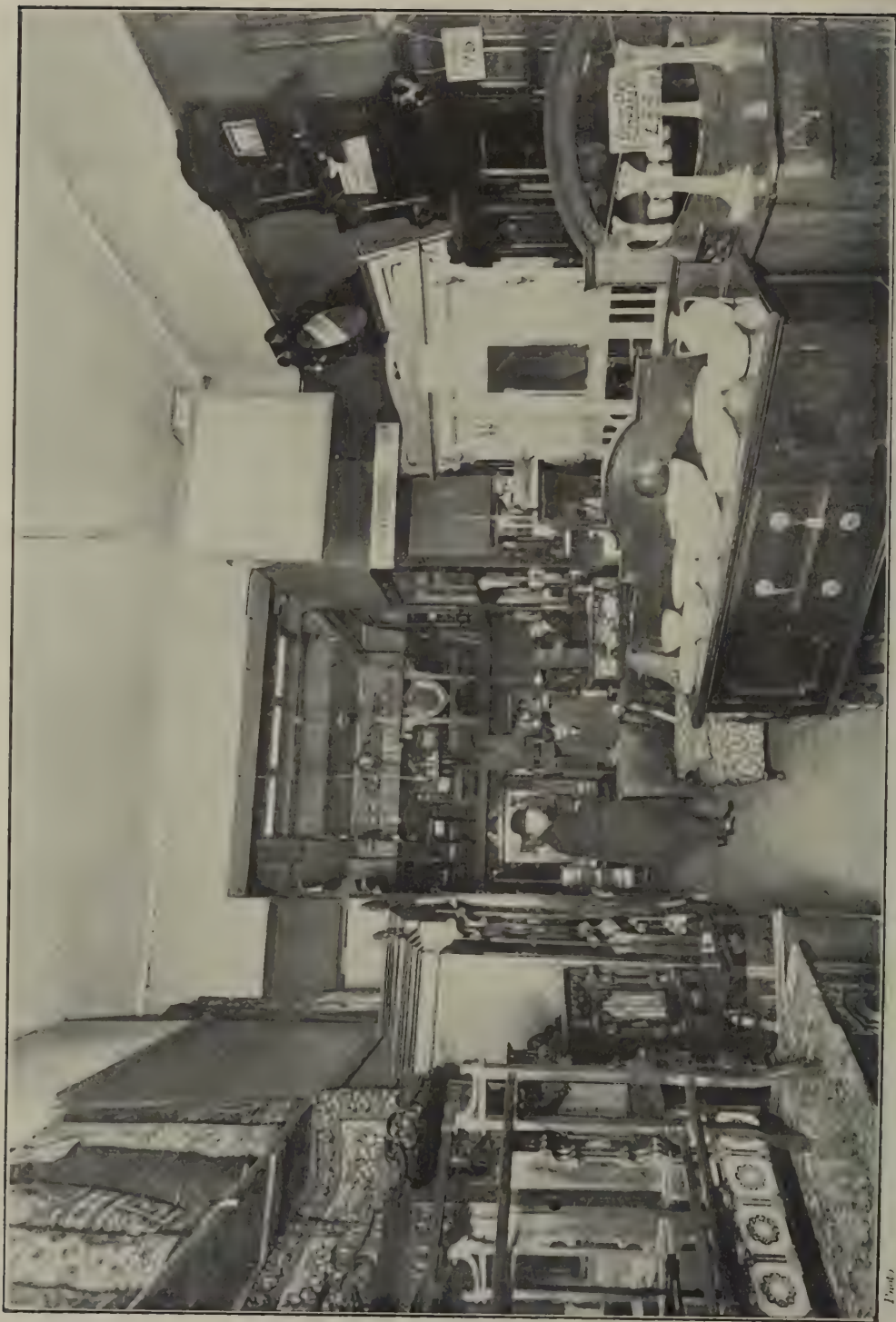
There are men, however, who know what makes for success or failure in a more analytical manner. These may be a little slower in forming conclusions. They see a customer making for success, and they can see why. Given the opportunity there are many excellent patterns they can copy and bad ones they can avoid, and not a scrap of their travelling experience is lost or forgotten.

A traveller, through seeing many kinds of businesses in operation, gets a grip of essentials, and is less liable to go astray upon some points than would be the case with many other people.

He sees an empty shop, and notices that it has just been let to a draper.

"It will never pay," he says.

Nine chances out of ten he is right. That shop never will pay any draper.



Printed

A WELL-STOCKED FURNITURE SHOWROOM

(Evan Cook's Depositories, Ltd.)

Keelogs, Ltd.

Frontispiece

A little later he passes the newspaper shop in High Street and notices that it will be a newspaper sweet stuff shop no longer, as it is to be opened by a jeweller.

It is obvious to him that the move is right—no newspapers or sweets could bear the rent that such a position could command.

The traveller hears that a certain firm is about to open retail shops.

"Madmen!" he says.

They do it—and having heavy capital they pull through, but only after their enormously valuable wholesale trade has been pulverized, and three or four years have passed without dividends.

The traveller has great opportunities for seeing business in those important relationships that train a man to trade for himself. Particularly he sees the instability of business, and realizes how swiftly a concern may fall in pieces.

The man whose only commercial training lies among books and accounts and the material properties, is often deceived into an over-estimate of the solidity of a going concern, and so may grow up in sheer ignorance of the constant output of thought and energy that is required to keep it going.

The traveller, upon the other hand, who has a certain number of accounts, realizes to an almost painful extent how easily any one of those accounts may be lost. If he has 500 customers he has but to multiply that easy act by 500 and his whole connection is swept away.

He will never see a business as solidly established, unless it chances to be a business with a famous brand or trade-mark, held in public esteem by constant heavy expenditure in advertising. A business to him will be an opportunity for new energies to supplement old, for connections to be built as fast as they die or faster, for rigorous action to maintain an enterprise amid conditions in a constant state of flux.

Drawbacks to Travelling as an Education for Trading.

We have dealt with the advantages of travelling as an education for the trader. The other side must also be stated.

A good traveller is an optimist—and optimism needs a lot of watching in trade.

A good traveller is a good salesman, and often an equally bad buyer. A trader cannot afford to be a bad buyer.

A good traveller may be erratic in hours. Regularity and punctual work is valuable to the trader.

"Wander-lust" or the restless spirit of roving that travelling easily develops in a man, chafes at the high office stool and the set task. The traveller over twenty counties who ties himself down abruptly to a single town may discover that strings break loose unless they are double-knotted,

The traveller, when he has posted the order to the firm has done his bit. A mysterious place grinds out the stuff as if by magic, and in so many days or weeks the goods are in the buyer's warehouse. As if by magic, too, some automatic agency supplies him with statements of accounts and the customers with invoices and there is rarely a difference between the two. He collects cheques and sends them on, and the same mysterious automata do the rest.

The traveller in business for himself finds that goods don't deliver themselves, and accounts are not kept by pressing a button.

Travelling, after all, touches the vital parts of trade—but it doesn't touch all parts.

As already indicated the chief place of all in which the ex-traveller trader is likely to go astray is in his capital and finance arrangements.

Financial Considerations.

As a traveller it would make no material difference to him, excepting in variations of profits, how much he sold, or how irregular the sales. To take a £100 worth of orders one week and £1,000 worth the next would be a pleasant leap in turnover. It is hard for him to grasp that the trader on a small capital can't finance big jumps very easily—that trade has to be kept steady.

Nearly always the trader who has been on the road, thinks a little too big for his capital.

This is specially the case when a man has made money in selling to wholesale buyers, and decides to open a retail shop. The writer remembers one such case where disaster was only averted by the head of the business taking his chief assistant—a retailer in spirit as well as in training—into partnership, and giving him the sole right to buy.

And, by the way, an ex-traveller often does well in partnership, especially if the other man is cautious and holds the handle of the brake. Partnership, however, is a subject dealt with in another section, and may not be considered here.

The Ex-traveller as Employer.

The ex-traveller is not a bad employer as a rule. He has insight and a knowledge of his fellows, and he tends to be generous. But his difficulty is chiefly that he cannot understand the man without initiative, and he is not always good at setting tasks. It is a certain fact of trade that some workers are quite lost without the system that will carry them along with it. They look for a master and find a "pal." They look for the work that they are to do, and find that there is no one to tell them where it is or how it is to be done.

The value of knowing the road to the man who must himself employ travellers, scarcely needs comment.

It has often been noticed that where a successful

commercial traveller becomes the head of a firm, that firm is usually very strongly equipped for outdoor salesmanship.

Travellers instinctively know how to select travellers, and how to retain them. The past experience is never forgotten, and there is always a tie between employer and employed that helps business.

"Saturday morning is the most important half-day of the week," said a director of a great London firm. "All our travellers are in the office, and I can get around and encourage them. I am an old knight of the road myself, and I know just when a man wants to be cheered up, and just when he wants to be pulled up."

This director, too, did the most important work of all on the board. He selected new men for the road.

"That man will do us credit," he would say of a clerk in the counting-house.

And always he was right.

CHAPTER VI

HOW TO OBTAIN AN AGENCY

As in the preceding pages it has been presumed that the man enters his own business by way of commercial travelling, it may be useful here to explain some of the ways in which suitable agencies are obtained.

The man's first endeavour should be to get on the road, in any kind of position that will help him to form his connection, and so work toward the object in view.

It is easier, as a rule, to get agencies than to get a salaried position as a traveller. But quite frankly a great many agencies that are offered are almost valueless. The land seems to contain a surprisingly large number of small manufacturers, who probably do a fairly good trade in the immediate vicinity of the factory, and are anxious to extend all over the country wherever they can find men who will sell their goods on the payment by results principle.

Some of these agencies may be quite useful for the purpose, but the aspirant must be prepared for a good many disappointments.

Answering Advertisements.

The first task may consist of answering any likely advertisements where agencies are offered. Many of the replies will relate to articles and goods which have to be sold direct to the ultimate users. These agencies are valueless for this purpose, as it will scarcely help a man who is intending to form his own business in this way, to call upon private residents or even upon business people when he has nothing to offer them to sell again.

Such agencies as those for typing machines, filing

systems, rubber stamps and similar propositions are not going to help him here.

The applicant must have in mind those kinds of agencies, that take him among traders, however small they may be.

It may be that among the newspaper advertisements of agencies, the beginner may find precisely the right kind of house for his purpose. Many firms extending their boundaries or commencing to trade in a large way advertise for local men in the different districts in the local papers, and a fortunate prize may be drawn quite early.

But a rather better system than this is to find out what is selling well in another part of the country and get the agency for one's own district.

"You seem to be selling a pile of goods for Tommleighs, Ltd.," said one traveller to another.

"However did you get their agency?"

"Quite easily," was the reply. "I had to go to Manchester on family business, and I saw a lot of their stuff about there. I went and called on the firm. They hadn't thought of doing business at a distance, but saw no reason why they should not give it a trial. The trial is succeeding."

Many travellers have got their best agencies by adopting some such method as this. In a large and bustling country there are always good new firms coming into existence, and as soon as the local trade is well established the first thought of many of these is to extend into new fields.

Carriage considerations weigh a good deal, of course, in the extension of trade, and in any such plan it is well to keep in mind the facilities offered by steam, rail and canal. Thus a traveller in Southampton could as easily represent a Belfast firm as one in Bristol, in spite of the greater distance. The water carriage on some goods would be probably cheaper than rail, and the firm more easily able to compete.

A commercial traveller who represented many houses with very great success, once explained something of his system.

"I spend more time and money finding and getting good agencies than I spend in working them. Goods well bought sell themselves, they say, and it is just the same with travellers as with traders. I prowl about the country a good deal at a distance from my own district, and all the six or seven leading agencies I now hold, in which I have a turnover of many hundreds of pounds a week, are in goods which were selling well in some other part of the country before they were heard of in my own centre."

The beginner who is contemplating starting as a commission agent in such a way as this, is probably not in a position to spend money or time in searching, nor would he be able to use to full advantage information obtained in this manner. But if one has friends in distant towns, it is easy to make a list of articles for which a

market could be obtained, and to find out the names of firms who manufacture and sell those articles in other districts.

The point of this is that the goods one sees

may seem to make the shops of one district very similar in their stocks to those of another, but none the less there is a difference, and in this difference lies the new man's opportunity.



By permission

A DIRECTORS' ROOM

Messrs. C. Pratt & Sons, Ltd.

around in one's own district are almost certainly represented. The fact that Blank's Semolina is already in the local shops is reasonable evidence that some traveller is already calling on the local shopkeepers in their interests.

The great increase in the number of branded goods, and the enlarged scope of the advertiser,

The method that has been advocated above is not an easy one. It is difficult to make a trade in commission travelling pay on its own account, let alone become so prosperous as to help one on one's feet in a project beyond it. But the writer has set out to suggest a way and, difficult as this may be, it is one of the best he can suggest.

It may, however, happen that a man has a chance of getting on the road in quite a different way. He may be offered a good salaried position on behalf of a firm of standing, such as many an experienced traveller would prefer to any problematical struggle to exist on dubious or second-rate agencies. Though it may not seem to the aspirant that as a salaried man he will have the same opportunities or freedom, he is far wiser to close with the offer than to look around in the hope of getting agencies more suitable for his purpose.

On the road a man with a connection can always change his methods and his firm, and if one is going to make travelling a means to an end, the first thing is to travel.

There are instances where a paid traveller who has been doing well for his firm has been able to make a new arrangement with them of a character that allows for doing some other work. After all there is nothing fixed in a salary beyond the period for which it runs.

CHAPTER VII

DEALING WITH OUTDOOR STAFF

(This chapter is written for the use of those who have had no personal experience of travelling and who, finding it desirable or necessary to send out representatives, wish to know the customary methods of dealing with them.)

Do not place the traveller under the supervision of any other employee if it can be avoided—certainly not of the employee who has never travelled. The traveller represents the firm, and should be in intimate touch with its principals.

Personal Touch.

It is a good thing to have some stated time when you can give personal unhurried attention to him. In some forms—those particularly where the representatives go long distances and are away for the larger part of the week—Saturday morning is "traveller's day," and full opportunity is taken for intimate discussion between principals and outdoor men.

The "week-end" habit has rather broken up this custom in many cases, but the importance of personal touch remains, and it does not suffice to do this work by deputy.

It may be, that when a business is of such a size or character that it employs a "sales manager," the sales manager will be one of the people with whom the traveller must keep in touch; his work in such a case would possibly be part of a general campaign, of which the sales manager is chief engineer.

But sometimes the term "sales manager" is used as describing the advertisement manager,

who may not be as capable in directing representatives as he is in directing publicity appeals.

It has grown to be a custom among some advertising men to minimize the importance of the traveller, and consequently care should be taken not to throw the responsibility upon the publicity man of overseeing a department he does not understand and with which he may not sympathize.

The man who is empowered to spend a certain sum of money in newspapers, posters and pamphlets, may not be able to see the precise place in which the representative may be supplementing his effects, or may be doing quite good work apart from him. The active head of the business, viewing results as a whole, would be better able to back up the traveller in some cases.

For example, a Bristol firm sends representatives as far as Surrey, Cornwall, North Wales, and Lincoln. Its advertising is chiefly local, confined to the Bristol newspapers and hoardings, but this local outlay is heavy.

The traveller on distant ground would get practically no advantage from the publicity, and would be unwise to rely in the slightest degree upon it, or to let the expenditure influence his actions.

Obviously, if the sales manager were purely an advertising man and had no personal experience of the road, he would be ill equipped to control or to advise. It is possible that his very success in one sphere might make him a most unsuitable director in the other, and the risk of cross purposes would be great.

Worse even than the advertising specialist is the untravelled book-keeper, for governing outside men. Advertising people *do* look at sales, and are very deeply moved by them, but book-keepers are much more influenced by the neatness of the cash sheet than the size of the business. Travellers (and some very good travellers, too) are the bane of the book-keeper's existence. They have a knack of allowing the odd pence to be knocked off, of deducting a lot of empty packages that have got mislaid somewhere, and of performing other annoying deeds. A good traveller will retain his customer even if he turns the book-keeper's hair grey, while the book-keeper who has closed a valuable account by an indignant letter over fourpence is not unknown in the world of commerce.

In a well-balanced business there should be someone to hold the scales justly between the office and the road—with a slightly greater charity to the man who is outside than the man who is in. If the thumb must be weighed in that scale, let it be on the traveller's side.

Let the active head of the business keep in touch with the traveller.

Letters.

Letters should be discouraged on both sides. A traveller who is doing his duty has no time to

write them. If he is to keep his nerve for his very difficult work, he should not be bothered with them while on the road.

All necessary communications from the firm to the traveller which involve replies should be drawn in such a way that little work is involved for him.

A note, with a space left at the foot for a scribbled reply, is better than a formal letter seeming to demand a formal letter back.

A traveller has not a shorthand secretary at his disposal, and it is unreasonable to expect from him the same kind of correspondence that large, well-organized office staffs accustom us to in letters from business firms.

All matters in which a few days' delay will make no difference, should be noted and raised in personal interviews, when the traveller is in the office.

A certain large firm possesses, or rather possessed, for customs have changed, a reputation for bombarding its travellers with a heavy correspondence. It had many departments, and they all were encouraged to write freely to the travellers.

A new representative of the firm, but not new to the road, manfully answered the whole of these letters the first week, but the second he changed his plan. He kept all the letters he received, and at the end of the week posted them to the managing director of the firm.

"I can sell your goods or I can answer letters," he said. "I am afraid I can't do both."

It is not well to let a traveller have too much letter-writing to do. It harms the good traveller by taking his time. It harms the one who has not made good, by giving him a wrong sense of proportion. His business is to represent the firm to the trade—not to represent himself to the firm.

It is a singular suggestion to make, but there really are people who feel that filling a duty of this kind takes away some of the necessity to do the real duties they are paid for. This kind of man, having indited a letter to his firm feels that a part of the day's work is done. To deny him this pretext is to help him to see where the real work lies.

"Send us the cash and orders," said a manufacturer to his traveller. "Send the letters anywhere you like."

Should Travellers Collect Money ?

"Shall I give my traveller power to collect accounts?" asks a trader.

In the majority of cases, yes. Much depends upon the nature of the business and the custom of the trade. In some large concerns the representative is solely a salesman: he knows nothing about the position of the account at any one time, although he is probably aware of the client's general promptness or otherwise in payment.

It is contended that this freedom from the

necessity to obtain payments gives him greater ease in concentrating upon his special work. Certainly if the collecting of the account means that he must do business with two people instead of one, that he must interview the secretary as well as the buyer, it is better for another arrangement to be made.

But if business is usually done with houses of the size and sort in which the same person settles the accounts and buys the goods, as, for instance, the majority of retail shops, there is a distinct advantage in the traveller being the collector.

Salesmanship is always easier when the salesman has an excuse for taking the buyer's time—some excuse, too, other than the goods he is offering. The settlement of an account may not seem on the face of it the best kind of introduction to a selling campaign. But in reality it is often the very best there can be.

Selling is nearly always in the latter part of a conversation. Dealing with the account cuts the interview neatly in two and marks a definite "half-time." The traveller has already broken the ice and has got his second wind. He is in the middle of an interview and beginning to feel at home.

More than this, there is a curious dislike in the commercial temperament for the "dead end." A man is never so much inclined to buy from a firm, as he is when he has just paid the account, especially if the transaction has been satisfactory. He lives by the continuity of his business, and the instinct to keep things moving is not confined to the selling part of his trade. "Let us have *something* on the books" is an argument that appeals to him.

The salesman who also collects, is a more complete representative of the firm than the salesman only. He can use other gifts than those involved in selling. He can nurse an account better, and where there are questions of credit and policy involved, his complete control of all the business gives him a fuller chance of trading.

The fact that the traveller collects accounts, while it gives him a little fuller authority, does not take any authority away from the office. There are still the powers of oversight at home, and the ledger tells its story. Travellers may sell goods and fail to collect money when dealing with undesirable customers, but the firm's power still remains. The goods need not be sent, and other methods of collection are available.

The fact that a firm gives special cash discounts for prompt payment need not prevent the traveller carrying the accounts that are not thus settled.

Travellers' Reports.

It is frequently asked, "How shall I find out what my travellers are doing? What kind of reports should I expect from them?"

The best reports are "cash and orders." In

very much of the ordinary work that travellers are sent out to do, they are the only reports that matter, and other information is practically useless.

The report is necessary in those cases in which there may be long intervals between orders, or where a great deal of follow-up work is necessary.

Let us take two cases for comparison.

One man represents a firm of jam and marmalade makers and he calls upon wholesale and retail grocers. In his business a £2 order would be reckoned "small" and a £20 order "large." It is expected that he shall sell at least £100 worth of goods in the week.

Now quite clearly £100 worth of goods must mean something like twenty to thirty orders as a minimum, and this gives an almost obvious necessity for some business every day.

There would be little need of any report in a case like this. The actual business done would be the best information. A blank day might need to be explained, but that is all. Any information about "prospects" would, as a rule, be valueless to another traveller and not worth filing. It is in such cases as this that the traveller's connection is largely personal and, unless actual business had been carried through, a list of calls and good impressions made would be scarcely more useful than a hatful of names of grocers picked at random.

The second man, on the other hand, represents a firm of makers of travelling ovens.

A travelling oven is not sold every day, and it is conceivable that the traveller might need to spend much time to secure one order. Blank weeks might be very strenuous weeks, and the firm be satisfied with the total of work over twelve months.

All the same a business-like firm might wish for some information to assure them that efforts are being made. It is well for them to feel confident that their traveller really is in Glasgow and not touring the lochs, or that he is visiting factories in Bermondsey and hasn't slipped over to Dieppe.

The daily report giving telegraphic and letter reply addresses or stating where he can be rung up the next day by long-distance telephone is reassuring to a firm.

More than this, each case is a good subject for filed information when purchases involve large sums of money, and every purchase is an event.

A report, in such a case, can assist the firm to keep track of good prospective cases and file all information about them.

It is very much to be doubted if the detailed inquisitorial sheet is of any value whatever in some information often asked for. For instance, the traveller who is expected to state the time he left the hotel and the time he made his last call is not assisted into the right state of mind. Within limits the best atmosphere for travelling is that of liberty, and any request for information that is obviously a blow aimed at freedom is bad.

Now it may be of value that a traveller should give a list of the calls he has made. This is a reasonable request that few men would resent and that might have a value, especially if the traveller were invited on the same sheet to state such facts about the calls as would be useful to record, but to state them sparingly and only when there was something important to enter.

Hotels.

"What kind of hotel shall my travellers stay at?" is frequently asked.

This book advocates "The best commercial hotel in the town." That is, the hotel where he is most likely to meet the largest number of *successful* travellers. The cheap hotel is often quite as comfortable as the expensive one, but the traveller's sense of prosperity should be preserved at any reasonable cost, and it does not do for that to be imperilled by his meeting with men who, in the majority, are doing badly.

One traveller advises that the size of the hotel should be in proportion to the size of the town. "Go to a small place in a village, but in a city look out for the 100 bedroom stack." It seems a trivial point, but this traveller had in mind the danger in a city of getting into a swing of small trade and failing boldly to appropriate the big accounts.

Travelling Expenses.

There are various methods by which a traveller's expenses are arranged. A simple plan is for the traveller to charge all actual out-of-pocket payments, producing such vouchers as he can, such as hotel bills, specifying rail fares, and lumping together any additional amounts as sundries.

Another method is an allowance of so much a day (the amount bearing some relation to the area of ground covered), the traveller paying everything and keeping what he can save. Before the war a guinea a day was considered an ample allowance for quite wide areas, but where heavy samples were carried and first-class tickets and stock-rooms were necessary, the margin was increased.

Some firms pay all rail fares and hotel bills, and allow a daily sum for incidentals.

It is convenient to advance the traveller a sum of money sufficient for his week's expenses, as in this way he can account for his collection daily as received. As an aid to book-keeping this is better than "Here is a sovereign to start with; you will be collecting money as soon as you get to Swindon."

Half the troubles about mixing moneys arise from confusion in some points such as this. The traveller who clearly sees from the start that the sums he collects have nothing to do with the sums he pays out, is assisted to think clearly about money all along.

Samples.

Some travellers can't get samples—that is to say, they can't get the right ones.

Usually the difficulty arises from the fear to let the traveller have the run of the place, or speak to any worker he likes.

Where the samples are of a nature that a single specimen is duplicated interminably—as, for instance, a shilling packet of breakfast food or a tablet of soap—there is no object in the traveller going beyond the sample room.

But where large varieties are stocked or manufactured, and it is the business of no one in particular to see that the traveller gets samples, the quicker the outdoor man gets a roving freedom to find out for himself, the better.

And here it is suggested that the traveller, though often the most dangerous employee, being the most likely to become, or to assist, an opponent, is not best used when he is kept at arms' length.

Factories and warehouses are not places where wandering enquirers should be suffered gladly, and it may be well to limit the meaning of the roving freedom that is here suggested. There is

in every department some responsible head. Let the traveller at least be able to get to that man, without being harassed with the sense of trespass.

The traveller cannot sell the goods he has not heard about, and here is the place where there is often likelihood of a hitch.

"My firm has been making these goods for three years, and last week was the first time I knew it," said a traveller.

Oh! It is quite easy to happen!

In this case the firm possessed the plant and made the goods when they were ordered. It was an oversight that they were not put on the lists, for the goods paid very well.

Had there been an easier way for the representative to get in touch with the heads of the different departments this oversight could scarcely have occurred.

The traveller's sample room is often a rather neglected place. Left in the care of a junior who is promptly snubbed when he asks questions, it can be the graveyard of many aspirations.

It pays the active head of a firm to take a list of the complete range of the goods he handles, and go over it with his traveller.

SECTION 31

Patents, Designs and Trade-Marks

By G. STUART KING

CHAPTER I

THE BUSINESS VALUE OF PATENTS FOR INVENTIONS

SOME of the largest businesses in the world have been built up on the successful exploitation of inventions. On the other hand, thousands of pounds have been thrown away from failure to appreciate the real nature of the rights conferred by a patent.

From the business man's point of view, inventions can be divided into two main classes: inventions relating to factory processes and those relating to articles for sale or consumption. The division is not a scientific one since the "article for sale" of one business man frequently becomes the factory process of the next. It is, however, sufficiently accurate since in the individual case there will as a rule be no difficulty in deciding into which class an invention falls.

Secret Processes.

Since applying for a patent necessitates publishing details of the invention, some manufacturers prefer to keep an invention of the first class as a secret process and rely on the loyalty of their workmen to respect the secrecy. An interesting example of this is the method of manufacturing the famous Oxford India Paper which has successfully been kept secret for many years. This, however, involves the risk that if the secret leaks out any person may use it, since there is no property in an unpatented invention.

In the case of an invention for an article for sale, a patent is essential to enable any large business to be founded on it. In the absence of such protection the article may be copied by anyone as soon as it becomes a commercial success.

Business Value of Patent.

As will be seen in the next chapter a patent gives the inventor certain monopoly rights. But as a business asset a patent is an uncertain factor. It is a highly artificial creation of the law and proportionately vulnerable.

If the invention is a success attempts will be made sooner or later to break down or infringe the patentee's monopoly. Unless he is willing and financially strong enough to protect his

rights, the patentee may find that his business has gone.

In the hands of a bold and financially sound concern the possession of patent rights is invaluable, but the weak or timid man may find their possession rather embarrassing than otherwise.

Foreign Patents.

Patents or their equivalents are granted by nearly all civilized countries, and are effective only in the country of the origin. If, therefore, it is proposed to develop an export trade in a patented article, it is necessary to take out patents in every country in which it is intended to trade.

The exact requirements and effects of the patent laws of foreign countries are obviously outside the scope of this work but, since they are governed to a certain extent by international conventions, they are in their broad aspects similar.

CHAPTER II

GENERAL EFFECT AND NATURE OF A PATENT

LETTERS patent for an invention in this country are, or more conveniently, a patent is a grant by the King of certain special privileges to one or more of his subjects.

These grants were formerly the cause of so much dissatisfaction that Parliament interfered, and patents can now only be granted for a period of sixteen years to the true and first inventor, within the realm, of a new manufacture which is not being used by others when the grant is made.

They are intended to encourage new inventions and to secure that such inventions shall, as far as possible, be worked on a commercial scale in the United Kingdom without undue delay.

A patent granted in this country extends at present to, and protects within England, Wales, Scotland, Ireland and the Isle of Man, but not the Dominions or other British Possessions. In view of the new status of Ireland, a change may have to be made in regard to that country.

Privileges Conferred by Patents.

A patent is issued by the Patent Office. It confers on the applicant, who states he is the

inventor of a specified invention, the sole privilege "to make use, exercise and vend" that invention. It prohibits other people from making use of or putting in practice the invention or any part of it, or imitating it, without the consent, licence or agreement of the applicant.

The grant thus confers on the patentee the absolute monopoly of his invention for sixteen years from the date of the grant. It therefore enables him, during that period, either to build up a business of his own for producing the patented article, or else to obtain payments, known as royalties, by granting licences to other persons who desire to use it.

Prolongation of Patents.

The period of sixteen years is considered sufficient to enable the patentee in ordinary cases to obtain reasonable reward for his inventive skill. In certain circumstances, however, he is entitled to have the period extended for not more than five, or, in exceptional cases, ten years.

In order to obtain this extension the patentee must show that the invention has conferred exceptional benefits on the general public, and that, notwithstanding every effort on his part to push the invention, he has not received an adequate reward.

At the present time there exist, as a temporary measure, special regulations under which patentees, the use of whose invention has been hindered by the war, can obtain an extension rather more easily than in normal times. In the ordinary course an extension is only granted on very special grounds. A common case in which an application may be made with reasonable chance of success is where the invention effected some considerable change in expensive machinery and manufacturers were, accordingly, reluctant to scrap their existing machines until the advantages of the invention had been fully demonstrated to them; a process which might take some time and involve the patentee in considerable expense for which he could not recoup himself within the period of his patent.

Extensions, however, have also been granted where the patentee was prevented by illness from pushing his invention.

Application for an extension involves a petition to the High Court, and therefore requires legal assistance; it should be made not less than six months before the expiry of the patent.

CHAPTER III

PATENTABLE INVENTIONS

It is not every invention that is capable of being patented nor is everyone entitled to apply for a grant. The invention must be "new," it must be a "manufacture," it must be useful; while the

grant must be made to "the true and first inventor," though it may be made to him jointly with some other person or company.

Essentials of a Valid Patent.

In deciding whether a valid patent can be granted in any particular case, there are therefore four questions to consider—

(1) Is the invention "new"?

(2) Is it a "manufacture"?

(3) Is it "useful"?

(4) Is the application made by the true and first inventor (either alone or jointly with some other person)?

Novelty.

Solomon assures us that there is nothing new under the sun, but fortunately the law does not adopt quite such an uncompromising attitude. All it requires is to be satisfied that at the date of the application, the invention contains an idea not known or available to members of the public.

It is not sufficient to show that the invention or idea was new to the general public if it was known, for instance, to other scientists engaged in similar research.

An objection on the ground of lack of novelty is usually based on the ground either of "Prior publication," "Prior user," or "General knowledge."

Prior Publication.

Publication usually consists in a description of the invention in any written work available to the public in this country. It may be found in a picture or diagram.

Publication in a foreign country alone is not sufficient, since a patent may be granted to the first person to import an invention into this country.

It is not necessary to prove that anyone in particular has read the description; it is enough if, for instance, it is on the shelves of any public library.

The description must be sufficiently clear to enable anyone acquainted with the subject to arrive at the actual invention without further experiment and without research through a number of books.

A common instance is publication in a specification filed in the Patent Office on another application. If, however, it was filed fifty years or more before the present application it does not amount to "prior publication."

Every application is scrutinized by officials of the Patent Office, and they pay particular regard to this class of prior publication. The mere fact, however, that they do not take exception to it on this ground is no guarantee that such prior publication does not exist.

Publication may also take place by delivery

of a public lecture, but there is an exception in favour of papers read before a learned society, subject to what is said below.

Prior Use.

Prior use requires that the invention has been used openly, either by the applicant or by someone else, though not necessarily on a commercial scale, prior to the date of the application.

Use under conditions of secrecy or abandoned experiments will not amount to prior use. Nor will use or exhibition in any industrial or international exhibition certified by the Board of Trade.

To avoid "publication" the inventor must, before reading a paper before any learned society or exhibiting the invention in any exhibition, give notice to the Patent Office of his intention to do so on the appropriate form (No 38: fee £1), and must apply for his patent within six months.

In regard to both prior publication and prior use, if the applicant can prove that what has taken place, has been done without his knowledge and consent, it will not deprive him of his patent provided he applies with reasonable diligence after he hears of it.

General Knowledge.

Proof of general knowledge does not depend on any particular publication or use of the invention. It must, however, be shown that the invention was common property amongst people interested in the particular trade or science.

"A New Manufacture."

"A manufacture" in this connection, extends to both the article and the method of making it.

In order to support a patent, an invention must either be of an article intended to be manufactured or something relating to the manner of making it; it may include both.

An abstract idea cannot be patented without some directions how to put it to practical use.

For example, it would not have been possible to take out a patent to cover Einstein's famous theory, but if someone could devise a means for putting his theories to a practical use in, for example, a particular kind of optical instrument, he might get a patent.

Utility.

Another requirement is that the invention must be useful. The degree of merit need not be great, but some practical purpose must be secured by its adoption. An alteration of an existing article, which does not effect any improvement for its intended purpose will not support a patent.

A patent will not be granted for any invention for a purpose contrary to law, or immoral.

If an invention relates to anything adapted or intended for use in war, care must be taken lest in publishing it an offence is committed against

the Official Secret Acts. In regard to such inventions it is desirable before proceeding with a patent to submit the invention confidentially to one of the fighting departments as soon as the preliminary application has been lodged. The inventor will then be told whether there is any objection to his obtaining his patent in the ordinary form or whether it is desired to keep the invention secret.

True and First Inventor.

The application must be made by "the true and first inventor," either alone or jointly with some other person.

This phrase covers the first inventor in the ordinary sense and also the first person to import the invention into this country. In regard to the latter, however, special provisions exist under which a person who has patented an invention abroad is given a year during which any patent he may take out in this country will date back to the date of his first foreign application. This may result in upsetting some patent applied for by an importer of the invention.

In the ordinary sense it denotes the person whose ingenuity leads to the discovery. If one man makes the invention and communicates it to another, the latter is not entitled to apply for a patent. If the latter were, by representing himself to be the inventor, to obtain a patent, the real inventor might apply to the Patent Office to have it set aside in his favour if he could show that the former application was made in fraud of his rights.

It is sometimes difficult to say who is the true inventor where an invention is the result of "team work." In such a case it is better for all the persons concerned to make a joint application.

The question sometimes arises whether an employee is entitled to take out for his own benefit a patent for an invention arising out of his employment. In general he is, but there may be a term in his contract of service which prevents him retaining the benefit of such patents. Such a condition exists, for instance, in the case of officers of the Army and Navy. An example of a short form of agreement suitable for this purpose is given. In some cases the employment may be of such a confidential nature that the patent would in law be considered to be the property of the employer. It must, however, be borne in mind in every case that if the employee is the inventor, the application must be made by him, but the patent when obtained should be assigned to the person entitled to it.

Applying for a Patent.

Once an invention has materialized sufficiently to enable its general nature to be clearly described, further delay in trying to perfect it in detail is dangerous.

Agreement for the Sale of a Patent

[Stamp 6d. To be followed within six months by an assignment of the Patent.]

AN AGREEMENT made this _____ day of _____ 19____ between
 (hereinafter called "the Vendor") of the one part and
 (hereinafter called "the Purchaser") of the other part—

WHEREBY IT IS AGREED as follows—

1. THE Vendor shall sell and the Purchaser shall purchase for the sum of £_____ the inventions and Letters Patent referred to in the Schedule hereto and all rights appertaining thereto and any improvements on or relating to the said inventions now or hereafter made or discovered by the Vendor
2. THE purchase shall be completed on the _____ [date] next when the said sum of £_____ shall be paid to the Vendor and he shall execute and do all instruments and things necessary to vest the said inventions and letters patent in the Purchaser absolutely
3. THE Vendor shall convey and be expressed to convey as Beneficial Owner but does not and shall not be required to warrant or guarantee the validity of the said Letters Patent
4. ALL improvements upon or additions to the said Inventions at any time hereafter made by the Vendor shall forthwith be disclosed by him to the Purchaser and the Vendor will if and whenever required by the Purchaser join with the Purchaser (at the Purchaser's expense) in obtaining Letters Patent for the same and shall assign the said Letters Patent when obtained to the Purchaser

AS WITNESS the hands of the parties

SIGNED by the said [Vendor]
 in the presence of

SIGNED by the said [Purchaser]
 in the presence of

6d
stamp

In patent law it is "the early bird that catches the worm." If two people independently make the same invention, the first to apply will get the patent.

Patent Agents.

Although it is not necessary to employ an agent in taking out a patent, it is very desirable. A list of registered patent agents is published and obtainable through any bookseller. To obtain a patent calls for the filling up of a number of forms and the preparation of what are known as "specifications." These are the descriptions of the invention which must be filed at the Patent Office, and on their careful preparation will depend the value of the patent when obtained, since, as will be seen in the chapter on infringement, the patentee will be tied down to the precise wording of these documents if he tries at any time to enforce his rights at law.

In the case of any intricate invention, it is essential to employ an agent; in a simple case, the cost of doing so is not likely to exceed about £10. It is therefore false economy to do without his assistance if the inventor has any faith at all in the value of his invention; if he hasn't, it is waste of money taking out a patent.

In the circumstances it is not proposed to do more than indicate here the cost of the various steps that must be taken.

If anyone wishes to dispense with the services of an agent his first step is to apply to the Patent Office for a copy of a pamphlet entitled "Instructions to Applicants," in which will be found an outline of the procedure.

Cost of a Patent.

If the application runs its normal course, the following fees will be incurred—

Application for patent	£ 1
Filing complete specification	3
Application for sealing	1
Renewal fees—	
Before the expiration of the 4th year from date of patent in respect of 5th year	5
Before the expiration of the 5th year in respect of 6th year	6

and so on every year, rising £1 per annum, up to the fifteenth year, when in respect of the sixteenth and last year the fee is £16.

Further fees may be incurred in the event of opposition and other special circumstances.

CHAPTER IV

DUTIES OF PATENTEE: EXPLOITATION

ONE of the purposes for which a patent is granted is to encourage new industries.

The patentee is accordingly required to arrange

for the working of his invention on a commercial scale within four years from the date of his patent. Failure to do so may result, as will be seen in the next chapter, in the loss of his rights.

It is not always possible for the patentee himself to set up a factory, but in such a case he must arrange for other persons to exploit his invention.

This he may do either by selling his invention outright or by granting licences.

Assignments.

A sale of a patent is carried out by a deed called an assignment. It is desirable to employ a solicitor to prepare this document. A simple form of agreement for the sale of a patent preparatory to the actual assignment is shown on page 692.

The would-be purchaser should satisfy himself by an inspection of the patent register at the Patent Office, that the vendor is in fact the owner and is free to deal with the patent. A purchaser of a patent takes it subject to all rights referred to in the register, but in the absence of actual knowledge will not be affected by any agreements entered into by the patentee which are not registered.

An assignment of this kind will have to be stamped in the same way as a conveyance of property.

The purchase price for a patent sometimes takes the form of a royalty payment either of so much a year or based on the number of articles made. In the latter case it is usual to arrange for a minimum royalty of fixed amount.

The assignment when completed, must be registered at the Patent Office.

Licences.

Licences may be expressed or implied. A licence to use in the fullest manner, including the right to re-sell, will be implied where the patentee or his agent sells the patented article without imposing any conditions. The sale may, however, be subject to conditions, and if the nature of such conditions is communicated to the purchaser, either orally or by a notice on the article, he will be bound and cannot make use of the article except in conformity with them.

The sale of a patented article does not carry any warranty that it is specially suited for its purpose.

Express licences fall into three main divisions—

(a) Ordinary licences.
(b) Exclusive licences (which preclude the patentee granting similar licences to other persons).
Either kind may be limited geographically or in other ways.

(c) Licences of right. These are not strictly a species of licence but the consequence of certain action by the Patent Office; they can,

however, conveniently be considered under this heading.

Ordinary Licences.

A licence may be granted orally, by any written document, or by deed. It is usually better, though not strictly necessary, to have a deed.

A common form of licence is shown as an inset. Attention is called in the notes on the form as to the more important clauses.

In the absence of special arrangements, a patentee neither guarantees the validity of his patent nor undertakes that the licensee shall not be interfered with by other patentees.

An intending licensee will sometimes ask for such assurances, but while the former may be given where the patentee is prepared to defend his patent by litigation, the latter undertaking should never be entered into. There are so many patents in existence that it is impossible to be certain that manufacture in accordance with one patent may not infringe another. An undertaking of this kind might in certain events place the patentee under serious obligations of indemnifying the licensee against an action for damages by a third party.

Limited Licences.

Licences may be limited as to place or manner of use. A licence may, for instance, be granted for Scotland only in which event neither the licensee nor any purchaser from him would be entitled to sell or use the invention elsewhere than in that country.

Again, a condition may be inserted to the effect that the article is not to be sold below a certain price. In this event, the licensee should be required to place a notice to that effect on every article sold. The patentee will then be entitled to restrain anyone whom he may discover selling his article below the stipulated price.

Thus, in one case a gramophone company succeeded in preventing a hawker selling, below the stipulated price, old records which he had purchased second hand.

Care must, however, be taken that the fixed price is not unreasonably high, or the patentee may be subjected to penalties referred to in the next chapter. The same considerations apply to other conditions which may have the effect of hampering the trade of or any industry in the United Kingdom.

Restrictive Conditions.

Certain conditions are prohibited from being inserted in any agreement or licence relating to the sale or use of a patented article unless the agreement permits the other party to terminate their operation, apart from the rest of the agreement, at three months' notice on paying compensation; or unless the patentee can show that he

gave him the option of acquiring the licence or goods on reasonable terms without the conditions in question.

Thus a patentee cannot seek to prevent a person using any article supplied by a third person, though he may restrict him from selling any such articles. Nor can he bind him to buy some non-patented article, except such things as may be necessary to repair the patented article.

If the patentee inserts any condition of this kind in a licence, not only will he be unable to enforce it, but he will also find himself unable to obtain damages against anyone using his invention without his permission, so long as the agreement containing the offending clause is in existence.

Exclusive Licences.

These amount to the disposal by the patentee of all the effective interest in his patent. Although he retains the nominal ownership of the patent, he cannot grant any other licences in the district covered by the exclusive licence (like ordinary licences they may be limited geographically). Nor can he manufacture or use the invention himself unless he expressly reserves power to do so.

Exclusive licences should be granted with great care since the only hope of obtaining remuneration for the invention rests in such a case on the commercial ability of the licensee.

In addition to the usual clauses in an ordinary licence a provision should always be inserted requiring the licensee to take the necessary steps to avoid any risk of incurring any of the penalties for failure to exploit the invention. It is also usual to require the licensee to finance any litigation that may be necessary to defend the patent.

Licences of all kinds will require to be stamped, and where a royalty is reserved, it is necessary to send them to Somerset House for the amount of Stamp Duty to be adjudicated. They must also be registered at the Patent Office.

Licences of Right.

The patentee may fail either to arrange for the working of the invention himself or to obtain licensees on satisfactory terms and yet be reluctant to allow his patent to lapse.

In such a case he may, provided he has not precluded himself by some contract from so doing, apply to the Patent Office to have his patent marked "Licences of Right." The effect of thus marking a patent is that any person may apply to the Patent Office for a licence which will be granted on such terms as may be agreed or in default as the Comptroller may think fit.

The advantage to the patentee of adopting this procedure is that the fees payable on renewing the patent will be half those mentioned in Chapter III, and he will also obtain a certain advertisement of his invention, since all applications of this

nature are advertised in official publications. On the other hand, he can no longer enforce his own terms on would-be manufacturers.

As will be seen in Chapter V, the Comptroller may in certain events mark a patent in this way on the application of a third party.

CHAPTER V

THE PATENTEE AND THE PUBLIC

EVERY precaution is taken by careful scrutiny to ensure that patents are only granted in respect of a "new" manufacture, so that no member of the public may be prevented from carrying on his trade in his accustomed manner. In view, however, of the complexity of modern science and engineering practice, an application may occasionally be accepted and a patent granted in respect of something which, in fact, is not new.

Safeguards, therefore, exist in the interests of the public to prevent abuse of privileges intended to reward invention and encourage trade.

Opposing a Grant.

All applications for patents are advertised in the *Patent Journal*, an official publication of the Patent Office. Any person interested may lodge a notice of opposition if he considers that a patent would, if granted on any particular application, interfere with his existing rights. Opposition can only be based on certain definite grounds which must be specified in the notice. These grounds are strictly defined by law, their general nature being as follows: That the invention was obtained from the person lodging the notice, called the opponent; that it has been claimed or published in a previous patent or specification; that it is not fairly described; in certain circumstances that there is a discrepancy between the provisional and the complete specification, or between a foreign patent and the application in this country based on it.

The opponent must substantiate his grounds by evidence; a process which may involve a hearing before the Controller of Patents.

There is not, as a rule, anything to be gained by opposing the application, since the opponent has to make out a clear case, and the patentee will be given the benefit of any doubt; whereas, in the event of proceedings by the patentee, the boot will be on the other leg, and any doubt will benefit the person attacked.

Opposition will only be successful in the clearest of cases, since it deprives the inventor of his rights once and for all.

An application of this kind gives the patentee an early opportunity of seeing the lines on which his patent may be attacked, and he is frequently

able, by making appropriate amendments, to strengthen it.

Occasionally this course results in the friendly settlement in its early stages by means of agreed amendments, of what might be a serious difference between rival patentees. If, therefore, there are grounds for supposing that the applicant has made a genuine mistake by including something to which he has no special claim and will be willing to amend his specification if the matter is pointed out to him, the course of opposing the grant can be adopted with reasonable safety.

But, except in such cases, or where very special circumstances exist, as, for example, a clear case of misappropriation of an invention, it is better not to oppose the grant of the patent.

Proceedings for Revocation.

If a patent has actually been granted, a person who considers his rights affected, can, if he thinks fit, try and get the patent revoked; but unless there are special reasons for anticipating that the existence of the patent will, in itself, cause serious inconvenience or damage to one's interests, it is better to await attack than to start proceedings. Any ground which might have been used to attack the patent will be available as a defence to proceedings by the patentee.

Proceedings to oppose or to revoke a patent, amount to entering on litigation, and should only be brought as the result of competent legal advice. Any detailed discussion of the procedure would, therefore, be outside the scope of the present section.

An alternative course, if one wishes to avoid litigation, is to apply to the patentee for a licence. The general discussion of the nature and effects of a licence will be found in the preceding chapter, and it is only intended here to refer to the steps open to a person who cannot obtain a licence on reasonable terms.

Compulsory Licences.

If a patentee is himself manufacturing, or has provided for the manufacture of the patented article by granting licences on reasonable terms, he cannot as a rule be compelled to grant a licence to any particular person. There are, however, certain circumstances in which any person interested can apply to the Patent Office for a licence, when the comptroller may either grant a licence to the applicant, which in special circumstances, may be an exclusive licence, or may endorse the patent "Licences of Right," the effect of which action has been discussed in the previous chapter; or, in an extreme case, he may revoke the patent.

The circumstances in which this application can be made are shortly as follows: If the invention is not within four years from its date being worked on a commercial scale in the United Kingdom; if the working of the invention in the United

Kingdom is being hindered by the importation of the patented article, by the patentee, or with his approval, active or tacit; if the demand for the article is not being met in this country on reasonable terms; if, by reason of the refusal of the patentee to grant licences on reasonable terms, or by reason of any conditions attached to licences granted by the patentee the trade of, or any particular industry in, the United Kingdom is being prejudiced.

Threats.

A patentee is not entitled to issue broadcast threats of legal proceedings against persons who use some article made by another, unless he *bona fide* starts proceedings against an infringer.

A person whose business is injured by any such threats is entitled to recover from the patentee any damages he may have suffered. The patentee will also be restrained from continuing his threats.

This provision has been aptly described as intended to counter the person who disseminates threats he dare not justify by action, who is willing to wound, but yet afraid to strike.

CHAPTER VI INFRINGEMENT

INFRINGEMENT is the contravention of the Royal Command contained in the grant of the patent, prohibiting people other than the patentee from making use of or putting into practice the invention or any part of it, or imitating it, without his consent.

Inasmuch as this prohibition is contained in the grant of the patent there can be no infringement if that grant is invalid. Questions of infringement, therefore, are nearly always mixed up with questions of the validity of the patent. And since the invention in respect of which any particular patent has been granted, usually known as its subject matter, must be gathered from the wording of the specifications, questions of validity and infringement turn in most cases on the correct interpretation of those documents.

There are, of course, cases in which a person knowing of a patented invention and having before him the specification deliberately sets out to copy it, but such cases are uncommon and give rise to little difficulty as regards proof of infringement. In the ordinary case a person uses an apparatus either in ignorance of the fact that it is covered by a patent or else having come to the conclusion that what he proposes to do is not within the wording of the specification.

In such a case the patentee has to show that the wording of his specification is wide enough to cover the alleged infringement and also that if his specification is read in this way, it does not

amount to a claim to something which was not novel at the date of the grant, since such a claim might invalidate the patent. This position is known as the patentee's dilemma, and the usual defence to allegation of infringement is in legal phrase, that the patent if read narrowly is not infringed, and if read widely is invalid.

The reasons for which a patent may be declared invalid have already been considered incidentally in connection with the requirements of a valid patent, Chapter III. It remains to consider in what circumstances infringement exists. From the practical point of view this necessitates an enquiry into the remedies to which the patentee may become entitled if he establishes infringement.

Patentee's Remedies.

The remedies normally open to a patentee are—

(a) *An Injunction.* A decree of a Court placing on record that the action complained of is an infringement of the patentee's rights and prohibiting the person attacked from continuing his infringement. Disobedience may be met by imprisonment for contempt of Court.

(b) *Damages.* The patentee is entitled to recover damages from the infringer. He must, however, prove that he has suffered actual damage by unfair competition, loss of trade, or in some other way. In some cases his claim may be assessed on the basis of a fair royalty for the use of his patent.

The actual amount of damages that may be awarded depends on the facts in each case. Where the patentee is himself a manufacturer and the infringer has injured his trade by under-cutting his prices, by putting on the market inferior goods which injured his reputation, by enticing away his customers, or in any other manner, damages may be heavy. The fact that the infringer has not made any profit by his infringement is not material.

If, however, the defendant can show that he was not aware and had no reasonable means of making himself aware of the existence of a patent, he will not be mulcted in damages. The mere marking of an article with the word "Patented" will not amount to notice of the existence of a patent unless accompanied by the year and number of the patent.

It is no longer open to the patentee to ask for an account of the profits made by the infringer.

(c) *Delivery Up or Destruction of all Infringing Articles.* Where the nature of the infringing matter permits it, the court will order the infringer either to deliver up to the patentee or to destroy the articles complained of. It cannot, however, be claimed as a right, and if such an order would be unreasonable the court may refuse to make it. By destruction is meant altering the condition of the article so that it no longer infringes the patent. It may or may not involve physical

Form of LICENCE to Use a Patented Invention

THIS INDENTURE made the _____ day of _____ 192 _____ between
JOHN JOHNSON of [address] _____ (hereinafter referred to as "the
Patentee") of the one part and THE EXPLOITIT COMPANY whose registered office is at
_____ (hereinafter called "the Company") of the other
part

WHEREAS the Patentee is the registered owner of the patents specified in the Schedule hereto and
has agreed to grant to the Company a licence to use the same on the terms and conditions hereinafter
mentioned.

NOW THIS INDENTURE WITNESSETH AND IT IS HEREBY AGREED as follows—

1. IN pursuance of the said agreement and in consideration of the royalties hereinafter reserved
and of the covenants or agreements on the part of the Company hereinafter contained THE
Patentee hereby grants unto the Company full licence to make use and vend [description of
Invention]

under and according to the specifications of the said Letters Patent during the terms of the said
Letters Patent and any extensions thereof or of any of them

2. THE Company shall pay to the Patentee a royalty of [10] per centum of the selling price of
each [article] manufactured and sold by them hereunder such royalties to be paid on the 1st
January and the 1st June in every year

3. THE Company shall keep at their usual place of business special books of account relating
solely to the said royalties and containing such entries as may be necessary to enable the true
amount of the said royalties to be conveniently ascertained which said books shall be open at all
reasonable times to inspection by the patentee or by any agent appointed by him And the
Company will furnish to the Patentee or his Agent all such information as he may reasonably
require to ascertain the true amount of royalty so payable by them And the Company will not
later than seven days before each of the days hereinbefore fixed for the payment of royalties deliver
to the patentee a true account of the number of [articles] sold by them during the preceding half
year and the amount of royalties payable by them

4. THE Company shall permit the Patentee or his Agent at all reasonable times to enter upon
any premises where the said [articles] are being manufactured and/or stored for the purposes of
ascertaining whether the terms of this licence are being duly complied with

5. THE Company shall not assign nor grant sub-licences or otherwise deal with the rights
conferred by these presents without the consent of the Patentee

This is often useful as the Specification is sometimes insufficient to enable the invention to be manufactured

6. THE Patentee shall if required and upon such terms as to remuneration as may be agreed or in default fixed by arbitration under the Arbitration Act instruct any persons not exceeding 3 in number nominated by the Company in the manner of performing the inventions covered by the said patents

7. THE Patentee will on being indemnified against any costs that may be incurred permit the Company to start proceedings in his name against any person or firm who may infringe the said patents without the licence of the Patentee

8. THE Company shall not export or cause or (so far as it is in their power) permit the export of the said [articles] to any of the following countries in which foreign patents covering the subject matter of the said patents have been taken out by the patentee viz : France Germany etc. etc.

9. THE Company will mark all articles manufactured hereunder with the number and date of the Letters Patent

Care must be taken not to fix excessive prices, vide Chapter V

10. THE Company shall not sell any articles manufactured hereunder at a less price than per article and it is agreed that any breach of this condition shall amount to an infringement of the Letters Patent in question

THE Patentee undertakes that in any licence or Agreement made by him of or in regard to the said Letters Patent a similar covenant or agreement on the part of the Licensee shall be inserted

IN WITNESS whereof the Patentee has hereunto set his hand and seal and the Company have caused their Common Seal to be hereunto affixed the day and year first before written

SCHEDULE

Description	Number	Date
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destruction. In many cases it may entail the complete destruction of the infringing stock.

As a rule the order gives the defendant the option of destroying the offending articles or of delivering them up to the patentee, but if he elects to do the latter the patentee is entitled to sell them for his own benefit. The patentee, cannot, as a rule, insist on the goods being delivered up to him unless the order of the Court is given in

remain to consider whether it comes within the wording of the specification. In any event proof of the facts will be governed by the ordinary rules of evidence and does not, therefore, call for special comment.

Imitation.

As a general rule a patentee will be limited to what he has claimed. It is rare, however, that an



By permission

A DRAWING OFFICE

The B.T.H. Co., Ltd.

Lighted by means of "Eye-Rest" indirect units, containing X-Ray Reflectors and Mazda gasfilled lamps

such a form that the infringer has no option in the matter. This should rarely happen if due care is taken by the infringer's legal advisers.

The question whether infringement has taken place must be decided upon the facts and the wording of the specification of the particular patent in each case. It is thus impossible to lay down anything beyond a few broad rules as to the manner in which the Court will approach the subject.

There will, in most cases, be little difficulty in proving the facts as the infringing article will generally be produced in court, and it will merely

infringer takes the whole specification and literally copies it; some latitude is, therefore, necessary in fairness to the patentee. The difficulty in interpreting a specification arises from the consideration of the degree of latitude to be allowed. Generally a patent will cover chemical or mechanical equivalents of the actual things claimed. This follows from the prohibition against "imitation" contained in the grant. How far this will extend will depend largely on the particular subject matter. If the invention embodies a wholly new idea, a description of one means of practically carrying out that idea will protect every other

method of carrying it out. If, however, the patent is in respect of a new method of carrying out a well-known idea the protection will only extend to the exact process claimed and close imitations of it which involve no degree of invention on the part of the imitator. Reference will always be made to common knowledge of the particular trade and to prior patents to ascertain whether the particular patent can be said to cover any novel object or not. |

Infringement by Use.

It will be remembered that the patent confers on the patentee the sole right of "making, using, exercising and vending" the invention. Infringement, therefore, may consist in doing any one of these things without the consent of the patentee. There may also be infringement of part of a patent provided the substance of the invention has been pirated. "Making," of course, means manufacturing the patented article. "Using and exercising" mean, in the case of a process, manufacturing in accordance with the directions contained in the patent. In the case of a patented article it includes use of any kind, whether for the intended purpose or some other purpose, and whether for profit or pleasure.

Experiments.

Use of a patented invention for purposes of experiment only, is technically an infringement, but where the use is limited to an experiment, the patentee will not be able to show he has suffered any loss, and the court is unlikely to interfere with genuine experiment by this means. It is important, however, to emphasize that in speaking of "experiment" is meant experiment in the subject matter of the patent on which the patentee's action is based, for the purpose of seeing whether it can be improved or some similar object. These remarks would not apply where, for example, patented apparatus is used for the purpose of experimenting in some other matter.

Purchaser's Liability.

A person buying the patented article in a shop, even in ignorance of the fact that it is patented, and subsequently making use of his purchase may be guilty of infringement. This fact deserves to be emphasized, as there is a common idea that a person buying an article without knowing of the existence of a patent is not subject to the rights of the patentee. This is wrong, as the patentee is entitled to prohibit anyone using his invention who cannot show that he is doing so with the patentee's permission direct or indirect, though, as already noticed, he may not be able in every case to recover damages.

There are, however, circumstances in which this permission is taken to have been given. This question has been discussed at length under the

title of LICENCES, where also the effect of a "limited licence" is noticed. It may, however, be useful to repeat here that a purchase from the patentee or his agent carries with it, in the absence of an agreement to the contrary, the right to use the article in any way the purchaser pleases, including the right to resell it.

"Vending" means selling or offering for sale. Mere purchase, possession, or transport does not amount to infringement unless accompanied by use. Thus a railway company do not infringe by accepting and transporting an infringing article. Inasmuch, however, as possession raises the presumption that use is intended, it may afford grounds on which the court would interfere by injunction. Thus a railway company might be restrained from handing over the infringing articles to the consignee.

There is in English law no such thing as an "accessory before the fact" to infringement of a patent. In the case mentioned, therefore, the railway company, unless prevented by injunction, would not incur any liability by handing over the goods to a person who afterwards made use of them.

Combination Patents.

For the same reason there is no infringement by the sale of the separate parts of an invention where the patent is for the combination of those parts only, except, possibly, where all the component parts were sold in such form that all the purchaser had to do to obtain the infringing article was to assemble them in some simple manner. It must also be borne in mind that what may at first sight appear to be merely a "combination" patent may contain claims to special parts of the combination. Any sale of a part so separately claimed will, of course, be an infringement.

Repair.

The purchase of an article also carries with it the right to repair it from time to time as may be necessary. But under cover of "repairing" the purchaser must not in effect, make a new article. It is not possible to lay down at what stage reasonable repair ceases, but in practice there would not be much difficulty in saying whether the article was honestly a new one or an old article repaired.

Government Use.

It may be useful to notice here that the Crown and any Government department may, by itself or by its agents, contractors or others authorized in writing, use any patented invention. The patentee is, however, entitled to reasonable terms for the use of his invention to be settled by agreement with the consent of the Treasury, or in default, to be fixed by the Court.

If, therefore, any person can show that what he has done was by written authority of a Government department the patentee has no remedy against him and all that he can do is to approach the appropriate department and demand to be paid a reasonable royalty. Failing this he must apply to the Court, a step which will necessitate the employment of legal advice. Any purchaser from a Government department of surplus articles originally made for the services of the Crown is also entitled to use them free from any claim by the patentee.

CHAPTER VII

REGISTERED DESIGNS

THE proprietor of any new and original design may apply to the Patent Office for registration. Registration confers a monopoly in regard to its use similar to, though narrower than, that granted by a patent in respect of an invention.

To be registerable a design must consist in features of shape, pattern or ornament intended to be applied to any article for purposes of sale. It must be something that appeals solely to the eye and not a method of construction or a mechanical detail of the article itself.

A design is not "new" or "original" if it has been published in the United Kingdom before the application for registration. The remarks contained in Chapter III in regard to publication of an invention apply generally to publication of a design, except that it is, of course, unlikely that any written description of a design would be sufficiently clear to amount to publication.

There are the same provisions as in the case of an invention saving the rights of the proprietor if disclosure is made of the design fraudulently and without his consent. Also in regard to exhibition in an industrial exhibition.

Publication abroad will not prevent an application in this country. Under international agreements, however, a person who has registered a design abroad has a period of four months from the date of the first registration during which any application he may make in this country will be dated back to the date of the first registration. This may result in an application made by an importer of the design being upset.

Proprietorship.

Unlike a patent, application for registration of a design need not be made by the inventor or author. It is enough that it is made by the proprietor. In the absence of special circumstances, the author is deemed to be the proprietor, but where the design has been executed "for value" to the order of another, the latter is deemed to be the proprietor; and any person who has acquired

the right to use the design by purchase or otherwise is likewise entitled to apply for registration.

Mode of Application.

Registration is a comparatively easy matter, requiring the filling up of a simple form of application, to be obtained from the Patent Office or through any Money Order Office. With the application should be sent three copies or photographs of the design. The applicant may, and if required by the Patent Office, must specify what parts of the design are specially claimed as novel. It is advantageous as a rule to do this, as most designs necessarily contain a good deal that is old, and this step serves to emphasize its novel features.

The application must specify the class of goods in regard to which registration is desired.

A list of the various classes is included in a useful pamphlet issued by the Patent Office called "Instructions to persons who wish to Register Designs."

Protection extends only to articles of the class or classes in which the design has been registered. It is therefore sometimes desirable to register in respect of several classes of goods where the design may be used on articles falling within more than one class. A separate application must, however, be made in respect of each class.

There is no obligation to bring the design into commercial use, as must be done with a patented invention, in every class in which it is registered.

In contrast to the specification of a patent, registered designs are not open to public inspection during the existence of the protection.

Duration of Protection.

The registration of a design continues for five years in the first place; and an extension for a further period of five years may be claimed as of right. A further extension of five years may be granted in the discretion of the comptroller. A fee of £2 is payable in respect of the first extension and a fee of £5 in regard to the second.

The proprietor must mark all articles to which the design is applied with the words Registered or Regd. or Rd. Design No. . . . Failure to do so may prevent him recovering any damages in the event of infringement.

On registration the proprietor is entitled to the sole commercial use of his design during the existence of the protection. Anyone who applies it to any article in a protected class for purpose of sale without the licence or written consent of the proprietor, or knowingly sells or offers for sale an article to which it has in similar circumstances been applied is liable as an infringer. As such he may be sued at the option of the proprietor either, for a penalty of £50 for each offence with a maximum of £100 in respect to any one design, for damages or an account of profits. The proprietor

A Short Form of LICENCE to Use a Registered Design

AN AGREEMENT made the

day of

192

BETWEEN

(hereinafter called the *Proprietor*) of the one part and

(hereinafter called the *Licensee*) of the other part WHEREBY IT IS AGREED as follows—

1. IN consideration of the royalties hereinafter reserved the proprietor hereby grants to the Licensee the right to apply the registered design No. in Class to [specifying the articles to which it may be applied] and to sell such articles within the United Kingdom and to hold use and exercise the same at all times during the continuance of the copyright of the said design

2. THE Licensee agrees to pay to the proprietor a royalty of for every article to which during the continuance of the copyright he shall apply the said design

3. THE Licensee shall keep proper and separate books of account in regard to the use of the said design which books shall at all reasonable times be open to inspection by the Proprietor or his Agent

4. THE Licensee will render Quarterly on the usual quarter days an account of the said user and will within fourteen days after rendering such account pay the amount so ascertained to be due by way of royalty to the Proprietor

5. THE Licensee will duly mark all articles to which the design has been applied with the proper registration mark

AS WITNESS the hands of the parties

SIGNED by the said
in the presence of }

SIGNED by the said
in the presence of }

must, however, make his choice and cannot claim both the penalty and an alternative remedy.

There is, as a rule, not much difficulty in deciding whether infringement has taken place or not. A design must be judged solely by the eye. There is no specification to construe, and the test is whether under normal conditions of use, the eye would confuse the alleged infringement with the registered design.

Licences.

It is a defence to an action for infringement to show that the permission or licence of the proprietor has been obtained.

A licence to use a design should be in writing and may be by deed. If the latter course be adopted the form will follow, with necessary modifications, the example given in regard to patents. A form of agreement not under seal which may be used in simple cases is shown on page 700.

Any person who becomes entitled to any interest in a registered design, whether as proprietor, licensee or otherwise, should apply to the Patent Office within six months on the proper form to have his name entered on the register. Fee 10s.

Removal from Register.

Any person adversely affected by the registration of a design may apply to have it removed from the register if he can show that the design had been published in the United Kingdom before it was registered or, alternatively, that while it is being used in course of manufacture abroad, it is not being so used to a reasonable extent in this country.

The procedure in such a case is similar to that in regard to patents, and the remarks contained in Chapter V are equally applicable.

CHAPTER VIII TRADE-MARKS

IN order to appreciate the nature of the rights conferred by the registration of a trade-mark, it is necessary also to consider the general law relating to what is technically known as "Passing off."

Patent rights are broadly based on the theory of rewarding an inventor for his contribution to general industrial knowledge; the rights now to be considered are based on the idea of protecting against fraudulent trading.

A man who has built up for himself a reputation for supplying good value is entitled to prevent others trading on that reputation by passing off or representing their goods to be his produce.

Quite apart, therefore, from any registered

trade-mark, if a man can prove that his name or brand or the "get up" of his goods has in fact acquired a distinctive reputation amongst people buying such goods, he can prevent any other person selling goods under that name or with a similar "get up." If in addition he can show that some one knowingly copied his name or "get up," he can obtain damages for any loss he may have suffered by such fraudulent trading.

He will, however, have to prove the distinctive reputation of his name or mark beyond all doubt and must also show that the action complained of is clearly calculated to deceive the public by leading them to believe that the goods are his. This is usually a long and expensive proceeding, requiring the support of a number of witnesses.

If, on the other hand, he is relying on a registered mark, it will only be necessary to prove formally the registration, a simple matter, and then to show that the person complained of has made use of the identical or a similar mark.

In either case it is important to bear in mind that it is immaterial that the goods actually supplied are as good as or better than those of the owner of the mark. It is not a question whether the purchaser has suffered, but whether the owner of the mark has been damaged by loss of custom.

Registerable Marks.

A mark can only be registered when it is used or intended to be used in connection with the proprietor's business, and when registered it can only be assigned with the business. Any attempt to assign it apart from the business or to grant licences to other people to use it will probably result in it ceasing to be protected.

No mark which is calculated to deceive or contains any scandalous or improper features will be registered, nor will any mark containing or similar to the royal arms or consisting of any portrait of the Royal Family.

The registrar of trade-marks has, moreover, a general discretion to refuse any particular mark if he considers that in the special circumstances of the case it is not proper to register it.

Registration is made in respect of such classes of goods as may be selected by the proprietor, and is of two kinds, known as registration in Class A and Class B respectively. The conditions to be complied with for registration in the former class are the more stringent but the protection secured is fuller.

Any mark may be registered in Class B, provided it has been used for two years in this country as a trade-mark and the registrar is satisfied that it is in fact capable of distinguishing the applicant's goods and does neither offend against morality nor contain any prohibited features.

A mark, unless it has been used continuously since before 1875, will only be registered in Class A

if after search it is shown not to have been previously registered in the selected class and provided it is or contains one or other of the following—

(1) The name of a company or individual represented in a particular manner.

(2) Signature of the applicant or some predecessor in business.

(3) An invented word or words.

(4) A word having no direct reference to the character or quality of the goods and not being in

whether any particular word submitted to him complies with the requirements as a mark capable of registration.

In certain trades particular care must be taken in selecting a word mark, as it frequently is the case that a mark which in itself complies with the requirements for registration is quite unsuitable for the particular trade. For instance, to market a line of heavy cables under a brand name of "Gossamer brand" would obviously be



Photo

Kealeys, Ltd.

THE TECHNICAL OFFICE, HAUGHTON'S PATENT METALLIC PACKING CO., LTD.

its ordinary signification a geographical name or a surname.

(5) Any other distinctive mark.

Application for registration should be made to the registrar of trade-marks at the Patent Office, except in the case of cotton marks or in certain cases in regard to metal goods when the applications should be made at Manchester or Sheffield (Cutlers' Hall) respectively.

In regard to word marks it is clearly desirable to choose a mark which beyond doubt complies with requirements. In the case of an invented word publication before application is no bar, so long as the word has not attained any meaning in ordinary language; nor need the "inventor" apply.

The registrar will, if desired, always state

undesirable, although such a name might be a good one to apply to a line of Shetland wool shawls.

The classification of goods for purposes of registration of trade-marks is to be found in the Schedule to the Trade-Marks Rules, of which a copy may be obtained, price 1s. 8½d. (post free), from the Patent Office. Anyone who desires to register a trade-mark without employing an agent should obtain a copy of this document, and at the same time a copy of a pamphlet entitled "Instructions to Persons who Wish to Register Trade-Marks."

Registration.

The registration of a trade-mark is a troublesome job and the comparatively small cost of employing

an agent will be well repaid as the proprietor can then be reasonably certain that his mark is a good one and that its registration is unlikely to be upset.

The fees payable to the Patent Office for registration amount to £3.

Once registration is obtained it lasts for fourteen years, but it may, as a general rule, be renewed for further periods of fourteen years indefinitely on payment from time to time of a fee of £2. Renewal of a mark which has been registered in connection with a patented article may be refused after the patent has expired, if the mark, being a word or name, has become the only practicable name of the article, so that any renewal would in effect extend the patentee's monopoly in regard to the article itself.

The advantage of registering in Class A is that when the mark has been on the register for seven years it can only be removed on the ground that registration was obtained by fraud, that it is calculated to deceive, or that it is not *bona fide* being used in connection with the proprietor's business.

During that period, and in the case of marks in Class B at any time, application may be made by any person interested to have a mark removed from the register on any of the more general grounds which might have been raised by way of objection to the application to register. That is to say, on the ground that it does not comply with the requirements of a registerable mark.

All applications for registration of trade-marks are advertised, and it is open to any person interested to oppose the application by giving notice to the registrar in the prescribed manner.

The remarks concerning opposition and application to revoke a patent contained in Chapter V are generally applicable to these proceedings, and legal assistance is equally necessary.

So long as his mark remains on the register and the validity of the registration is not attacked, the proprietor is always entitled to obtain from the Court an injunction to prevent anyone infringing

his rights. He can, however, only obtain damages or an account of profits as from the time the infringer can be shown to have been aware of the fact that the mark was registered.

It is therefore essential that the mark should always be used in conjunction with some such phrase as "Registered Trade-Mark" and care should be taken not to confuse the registered mark with other matter not registered, otherwise an infringer might be able to claim that such use was misleading and that it was consequently impossible to say what was the actual registered mark and so avoid paying any damages.

CHAPTER IX

CRIMINAL OFFENCES

IN connection with the rights which have been discussed in the foregoing chapters there are certain acts to which penalties, in the shape of fines enforceable before a Court of Summary Jurisdiction have been attached. Since some of these are matters in regard to which no criminal character is apparent, it is perhaps desirable to mention their nature shortly.

It is an offence to mark any article with the words "Patented" or "Registered Design," or "Registered Trade-Mark," when in fact no protection of the kind exists.

It is also a criminal offence to apply to goods a false trade description or, without the consent of the proprietor, any registered trade-mark, or any mark calculated to deceive, or in certain circumstances to sell any goods to which any of these has been applied.

There are also special requirements as to marking of certain classes of goods, e.g. margarine. These, however, have no special connection with the general subject of this section but arise under a different class of legislation directed to secure the public health.

SECTION 32

Banking

By S. HOWARD WITHEY

CHAPTER I

INTRODUCTORY

THE early circulation of paper credits or vouchers was necessitated by the great increase in the production of wealth, together with the expansion in methods of production generally, and upon this credit system modern industry, trade, and commerce have been constructed.

The success of any banking system depends almost entirely upon mutual confidence and trust. So long as promises to pay are duly honoured, the difficulties of getting them accepted automatically vanish, for confidence and credit go together. In an ideal condition of society, in which every member of the community had complete trust in every other member, it would be possible for individuals to manufacture their own credit money, and to circulate it readily, for each person's I.O.U. or promise to pay could be used as currency, as acceptors would know that the credit would not be abused and that the promise would be duly redeemed. The evolution of mutual trust has not, of course, reached this stage, as individual promises to pay cannot be absolutely relied upon, so that personal I.O.U.'s cannot be put into circulation, for receivers would have no guarantee of the *bona fides* of the givers. Individual promises to pay have to be drawn up, therefore, in a specific manner and dealt with through bankers, who in effect advertise the credit of individuals to the general community, and for which services they make certain charges.

The Work of Banks.

Without some method of satisfying those with whom it is desired to transact business, it would be practically impossible for traders to obtain the necessary credit to carry on the work of production, or to render any kind of service. To satisfy this essential requirement some agency must be in existence through which credit money transactions can be conducted, and those able and willing to give credit can be assured of straightforward dealings. This administrative work is performed in a most efficient manner by banking firms and companies, and business men should make themselves thoroughly conversant with the practical points which arise from time to time.

Importance of Banking.

The importance of banking as an integral part of the industrial organization of the country has been revealed to all traders during the past few years, and all business men are increasingly realizing that although a knowledge of the theory of the subject is of very considerable importance, the practical daily requirements of industry, trade, and commerce call for a greater understanding of practical details. In the routine of the office a knowledge of banking methods is indispensable, although, of course, the degree of indispensability varies in proportion to the exact routine of the particular concern. In the case of a very small business the volume of transactions is usually smaller than the volume of transactions of a larger undertaking, and consequently the amount of practical banking involved in effecting general transactions is relatively small, and without a complete knowledge of all points the established trader in a very small way would, perhaps, be able, in many instances, to deal satisfactorily with the comparatively few problems arising from time to time. The business man in control of a larger concern would be constantly faced with more involved problems demanding solution at the moment, and these necessary practical points would accumulate with the growth and expansion of the business.

Confidence in the Banks.

The establishment of our joint-stock banks dates from 1826, when it was enacted that any banking firm could include any number of partners except within a radius of sixty-five miles from London. The effects of this in establishing confidence in the sphere of commerce have been very beneficial, and at the present time our banks are in a much stronger position than at any period in their history, so much so that a repetition of the panic of 1825, when no fewer than seventy-five banks failed owing to a run on the banks of the country, is a practical impossibility. Any suspension of confidence, therefore, renders it impossible to obtain money or credit readily upon even the most unobjectionable security, and if any such state of affairs existed many hours the effect would be that all exchange dealings would be stopped except by way of barter.

A bank failure to-day results in a run of depositors

to withdraw money, and in such cases the last comers lose their deposits, except when the winding-up of the bank yields a proportion to creditors. In most cases, however, bank failures are caused by their engaging in speculation without the knowledge of their customers, but for some years very few British banks indeed have been willing to run any such risks. Moreover, in the ordinary way, the money market is controlled very effectively by means of the Bank of England rate of discount, which fluctuates from time to time and has probably been the most variable in the world, for since the passing of the Bank Charter Act it has changed nearly 500 times, alternatively causing gold to be imported and exported, and thus altering the extent of the gold reserves of the country upon which the entire financial edifice rests.

Chief Functions of Banker.

The chief functions of bankers are the keeping of Current Accounts for customers, the acceptance of deposits at interest, the discounting of bills of exchange, the advancing of money in the form of cash, credit loans and overdrafts, the issuing of bank notes and acting as agents. A bank's income is obtained chiefly, therefore, from commission on the cheques drawn against customers' Current Accounts, discounting charges, interest on loans, overdrafts, etc., agents' commissions, and from the note issues.

The importance of an accumulation of the wealth of a country in the hands of bankers is considerable. In this way the superfluous wealth accumulated in one part of the country, is directed to other parts of the country where it is required to stimulate industry, trade, and commerce. In this connection, bankers act as professional distributors of wealth, and the efficiency and extent of such distributions depend largely upon the value of deposits under their control.

The evolution and development of the industrial stage of society has led to an enormous increase in the productive power of the country, hence the existence of interest for capital which bankers grant to customers on Current and on Deposit Account.

When Bank Balances are Low.

Bankers lose, at the end of each week, a very considerable amount of cash drawn for the purpose of paying wages to workers, and this cash gradually comes back to the bank through tradesmen, etc., paying in cash received from the wage-earners. At the end of each month a similar depletion of cash takes place for the payment of salaries, and about the middle of each month many banks lose a large portion of their balances by reason of the payment by their retail customers of the monthly accounts of wholesale houses.

At the end of each quarter there is also a

disturbance of balances for rents then falling due; and finally, in the summer and autumn months much actual cash is temporarily taken from the banks for harvest and holiday requirements. Thus the banks lose a portion of their cash or bank balance on certain days and at certain seasons of the year. These are all known demands, and the banker is prepared accordingly.

A reduction in the aggregate deposits at the banks, as revealed in the monthly statement of the clearing banks, is often due to the reduction in the rate of interest on deposits, but this does not always affect the situation, because traders and others withdrawing deposits and using the money to invest in securities, really only hand over that money to another bank in which it may figure as a Current Account.

Special Work Undertaken by Banks.

In addition to the ordinary business of keeping customers' accounts, the majority of bankers undertake special work. The position of a banker, in the case of a customer leaving securities for safe custody, is that of a bailee, and the liability of the banker depends largely upon whether he is rewarded or not for taking charge of them. If the banker undertakes the duty gratuitously he is not liable, except for gross negligence, but if he is rewarded he is absolutely responsible for the custody and safe return of any articles left in his charge. The outstanding difference between the position of a banker as his customer's debtor, and his position as a bailee responsible for goods in trust, may briefly be illustrated as follows—If George Smith pays £50 into his account at the bank, the banker becomes Smith's debtor to this extent, and is liable to pay back £50 to Smith on demand. Until the demand for repayment is made by Smith, however, the banker is at liberty to do what he likes with the money. Moreover, repayment is, of course, not effected by handing over the same money tokens as were deposited. If Smith leaves a parcel of articles with the banker for safe custody, the banker's position is that of a bailee, and he is obliged to take care of the parcel entrusted to him and to return it, with its contents untouched, to the customer any time upon demand.

The position of a banker in relation to his customer may be that of a mortgagee. If a customer grants a mortgage to the banker for a fixed amount, the banker can charge simple interest on the loan account. Providing also the memorandum of association of the bank empowers it, a banker may act as sole executor under a will, or as trustee under a will or settlement, or as custodian trustee. A banker frequently gives advice to his customers regarding investments, although the precise duty of the banker in such cases is not definite.

Most bankers also undertake to receive dividends due to their customers, and to pay any annual premiums or subscriptions authorized by customers.

CHAPTER II

THE CURRENT ACCOUNT

PROBABLY the most important matter to the average trader is the proper keeping of the Current Account at the bank, which account the huge majority of business men are practically compelled to keep by reason of the number and magnitude of monetary transactions, and the enormous development of the credit system and of banking as a whole.

Interest.

Whether or not the depositor is credited with interest on the difference between deposits and withdrawals depends upon the particular arrangement made between the banker and his client. In London it is the custom for a banker to require that his customer shall retain a minimum balance at any time of about sixty pounds upon which no interest at all shall be allowed, and in return for which the bank shall not charge any commission on the total amount of the cheques drawn,



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What a Current Account is.

Transactions which take place between two individuals or institutions are recorded in what is called a Current Account, the object of keeping which is to ascertain at any given time the exact position of the two parties in relation to each other. Between the business man and the banker it is an open account into which the former pays money and out of which he draws, or may draw, on demand, without giving the banker any notice. Through this account, money whether in the form of cheques, bills of exchange, or legal tender, may be deposited at a bank to be added to or to be withdrawn at any time.

while in the provinces it is usual to allow a small percentage interest on credit balances and to charge a small percentage commission on the turnover of cheques.

Advantages of Current Account.

Stated briefly, the chief advantages to the trader in having a Current Account at the bank are as follows—

1. The private hoarding of accumulated sums of money is avoided, thus eliminating considerable danger of loss and inconvenience in the keeping of the money, while at the same time, instead of allowing it to remain idle and unproductive,

the money can be invested by the banker to the best advantage to the general trade of the country, and the depositor credited with interest as a return.

2. Money can be transferred on the whole or part settlement of accounts owing, or in the purchase of goods or the commanding of services, by means of cheques, which not only are of great convenience in remitting money to another trader in the same town or district, but are the means whereby cash is sent to any part of the country, thus avoiding or substantially minimizing the necessity and trouble of counting and sending legal tender notes or coin.

3. Any cheques or bills of exchange received can be collected without any trouble to the customer, and bills of exchange can be readily discounted, and the advantages of ready cash obtained.

4. The advantages of a continued banker's reference as advertising and mobilizing the credit of traders, is a means of increasing the private credit of individual customers and the importance of obtaining reliable information regarding the stability of other traders having banking accounts is a considerable help in conducting any business.

5. The advantages of employing working capital in a business by obtaining permission to overdraw, on providing what the banker considers to be sufficient security, can be obtained with little trouble, thus guaranteeing a more productive return on the invested capital of the customer.

The Pass Book.

The name "Pass Book" is given to the books which give the details of all the transactions passing between traders and their customers, although it is perhaps more generally used in connection with the books in which bankers enter the debit and the credit transactions of their customers. Years ago, individuals having banking accounts called at the bank on certain days to examine their accounts in the bank ledgers, and if the account as set forth was agreed upon as correct, the customer signed his name under the entries on the withdrawals side, and the banker signed for the accuracy of the entries on the deposits side. To-day, the bank pass book is, or should be, an exact copy of the customer's account in the bank ledger, and bankers usually require the pass book to be left for the purpose of being written up to date, generally at least once a month. After the pass book has been made up at the bank, it is sent to the customer through the post, or by messenger, that is unless the customer prefers to call for it personally.

No entry at all should, of course, be made in the pass book by the customer himself, but he should nevertheless examine it very carefully and regularly, and if any error is discovered the bank should be notified at once, as any delay may involve difficulties of one kind or another.

The transactions recorded in the pass book may be used in evidence against the bank, if occasion arises, and a banker is bound by an entry on the deposits side if the customer has relied upon it and has drawn cheques against it, although the entry itself may be an error. If, however, the customer has not relied upon such an incorrect deposit entry, the banker may show that the entry is a mistake.

The transactions between a trader and his banker consist of amounts paid into the bank, and amounts withdrawn from the bank, and these amounts are detailed in the bank book or bank pass book. The deposits of the trader are entered on one side of the pass book, and the withdrawals on the other side, and the difference between the two sides of the account represents the amount owing to or by the customer. If the total of the deposits side of a Current Account pass book exceeds the total of the withdrawals side, the excess is the amount owing to the trader by the banker, and is payable on demand at any time; and if the withdrawals are greater than the total deposits, the balance represents the sum overdrawn by the trader, and owing by him to the bank. Life assurance policies are very frequently deposited by traders for the purpose of being allowed to overdraw their Current Accounts.

The following are the usual rulings of a *Bank Pass Book*.

In some banks the debit and credit sides are the reverse of the bank's Ledger Account, in which case the pass book form is as follows—

.....BANK, LIMITED.
In Account with
JOHN JONES, Esq.,
of 10 Oxford Street, Winchester.

192..		£	s.	d.	192..		£	s.	d.
July 6	To Sundries .	405	11	2	July 1	By Balance due	451	11	6
					6	" Self . . .	10	-	-

An alternative form practically reproduces the bank's Ledger Account, and is as follows—

JOHN JONES, Esq.,
of 10 Oxford Street, Winchester.
In Account with

192..		£	s.	d.	192..		£	s.	d.
July 1	To Bal. due	451	11	6	July 6	By Sundries .	405	11	2
6	" Self . . .	10	-	-					

Balancing the Account.

It is customary for banks to balance their books every six months, although in some cases this is done quarterly, and in others even monthly, and the trader with a Current Account will find that his bank pass book is balanced and ruled off accordingly. If the account is overdrawn, that is to say, if the customer owes a balance to the bank on the last day of the half-year, an entry will appear on the withdrawals side of the pass book for bank charges, representing interest on the outstanding balance, plus a commission on the turnover of cheque transactions.

The balance standing to the credit of a Current Account may be withdrawn at any time by the customer, and, generally speaking, no charge is made by bankers for conducting the account, unless the amount standing to the credit is very small or is insufficient to cover expenses, in which case a small charge is made. No interest is allowed to customers by the majority of bankers, although a few banks do credit their customers' accounts with a small interest calculated on the minimum monthly, quarterly, or half-yearly balance. This absence of uniformity in practical banking should cause the trader to fully consider the particular methods of any bank through the medium of which it is proposed to transact business operations.

Transactions on Current Account.

A Current Account differs from a Deposit Account in that the balance of the former can be chequed out at the convenience of the customer, no notice of withdrawal being required. The banker can make use of the money paid in, either by investing it or lending it to another customer or by keeping it in the bank's till to meet demands for legal tender. The customer always has the right to draw cheques upon the particular bank, providing the account is not overdrawn (unless a mutual arrangement as to an overdraft has been made and agreed upon). Cheques drawn upon a bank and charged to a customer's Current Account, can be made payable to the customer himself, or to another specified person, or to bearer. Accepted bills can, by arrangement, be charged to the Current Account at maturity. The Statute of Limitations applies when money has lain dormant at a bank for six years, although it is very rare that a banker takes advantage of the Statute, and various proposals have been advanced from time to time with regard to unclaimed bank balances.

A customer having a substantial balance to the credit of his Current Account, and anxious to obtain a banker's advance for the purpose of expanding trade operations, or for any other purpose whatsoever, will not satisfy a banker that the Current Account balance is, in itself, sufficient security for an advance, even where the sum it

is desired to borrow is very materially smaller as compared with the average credit balance of the customer's Current Account, for the reason that the trader may be conducting business operations with the use of money borrowed from another source, and may, as a matter of fact, be actually trading at a net loss.

Bank's Selection of Customers.

As a rule, banks are very careful in their selection of those persons, firms, or companies, for whom Current Accounts are kept, for a customer who is at all careless in the actual drawing of cheques causes considerable work and annoyance, and often anxiety. The great majority of the established banks in this country endeavour to avoid at any time conducting an account in respect of a business, trade, or profession, where failure or serious financial difficulties are practically certain, but at the same time they always welcome the thrifty and industrious business man, and indeed render great and constant service in the collection and payment of debts, and the liquidation of indebtedness generally.

By means of the clearing system, the banker is able to collect the cheques paid in by his customer and to pay all cheques which his customers may draw in favour of their creditors, with the least possible trouble and in a very short time. If, however, a banker merely accepted deposits and collected and paid the debts of his customers, banking profits would be relatively small, but one of the chief functions of the enterprising banker is that of advancing the money deposited, or creating the credit under his control.

Checking the Current Account.

The trader should check his Current Account, item for item, with the bank pass book, from time to time, say, once monthly, and should enter in his Cash Book all items for bank charges, commission, etc., for posting to the ledger as charges against the profits of the business. When bringing down the balance of the Cash Book at the end of the month or other convenient period, the details of any cheques outstanding or unrepresented should be given for the purpose of clearly reconciling the balance with the actual balance at the bank, and for audit purposes.

CHAPTER III

THE DEPOSIT ACCOUNT

IN 1512 Sir Thomas Gresham, who was at the time Lord Mayor of London, raised the first loan in this country on behalf of the Government. There were many kinds of coins in circulation, and owing to lack of mutual trust and confidence many individuals preferred to retain the new

and the least worn coins, and to purchase goods with the inferior coins. Later it was decided by the Government to improve the currency, for the purpose of setting free the better coins which had been hoarded by many people, and in order that the trade of the country might be increased by reason of an increased effective demand for goods of all kinds. It was accordingly announced that upon presentation of old and worn gold coins on or before a certain date, new coins would be given, but that all persons failing to present old coins within the stipulated period would have to bear the loss themselves.

Need for Deposit Facilities.

As a consequence of this improvement and stabilization of the coinage, the total exchanges of money increased very considerably, and the national production of goods expanded enormously. The profits of traders, manufacturers and merchants greatly increased, and considerable difficulty was experienced in finding places to deposit these accumulated profits with safety. There were, of course, no banks, but after a time the Tower of London was opened for the specific purpose of enabling individuals, and particularly merchants, to deposit surplus money, but the action of Charles I. in confiscating this money in order to meet expenses incurred by war, naturally resulted in the refusal of the people to deposit any more money at the Tower. The private hoarding of cash grew apace, but this was soon found to be extremely inconvenient in many ways, and quite impossible in many cases, so that those merchants and traders whose stock of coins was growing almost daily began to look for suitable places where their surplus could be safely deposited.

The Goldsmiths.

The Goldsmiths of Lombard Street were known to possess large fire-proof safes in their underground passages, and as they announced their willingness to accept the responsibility of safeguarding money and valuables entrusted to them, a number of traders and merchants commenced to deposit money with the Goldsmiths on the understanding that it could be withdrawn at any time upon demand. A quick general recognition of the convenience of this arrangement caused the majority of individuals engaged in trade and commerce regularly to transfer their available surplus coins to Lombard Street.

A person depositing money received a receipt from the Goldsmith as a proof of the legal ownership of the money, and in the case of a depositor withdrawing all his money, the Goldsmith was, of course, obliged to pay out upon presentation of the receipt for cancellation. In many cases, however, depositors desiring to withdraw money, did not wish to withdraw all of it, so that the Goldsmith was obliged to endorse the official

receipts in such manner as to indicate the precise amount which had been withdrawn, and the balance remaining. The growth of trading operations, as a whole, and the consequent increase in the profits of individual traders, led to the constant placing of large sums of money into the hands of the Goldsmiths, and the comparatively few withdrawals meant that a large proportion of the deposits was lying idle in the Goldsmiths' safes. By experience, it was found necessary to retain only about one quarter of the total deposits, to enable the Goldsmiths to meet all the demands which were likely to be made. Moreover, as the public had every confidence in the honesty of the Goldsmiths, and in their ability to meet all the demands that were likely to be made upon them, the official receipts representing money actually deposited began to be used as currency. In this way the greater part of the money was kept at Lombard Street, and the Goldsmiths' official receipts were used for settling debts, purchasing goods, and effecting exchanges generally. So that the amount which was necessary to keep as a reserve to meet demands, and satisfy day to day withdrawals, was even smaller than the one quarter which was found to be necessary before the universal utilization of the paper receipts as currency.

Expansion of the Deposit System.

With such large amounts of money serving no useful purpose at all it occurred to the Goldsmiths that such money could advantageously and profitably be lent to those individuals desiring to borrow, and this they commenced to do, charging a small commission on each transaction. For the purpose of attracting to Lombard Street money which they knew by experience would be available largely for lending purposes, the Goldsmiths expanded operations by offering to credit the accounts of depositors with interest on the balance outstanding. The expansion of the deposit system in this way was really the first definite development of the Money Market in this country, and it was soon realized that vouchers or paper credits could be issued to borrowers instead of actual gold, by reason of the fact that such were backed by actual gold under the control of the Lombard Street money dealers in whom the public had every confidence and trust. The use of vouchers or paper credits was taken advantage of by traders and merchants in settling debts, and consequently the amount of money available in Lombard Street for lending purposes greatly and quickly increased, and dealing in money became very profitable to those able and willing to undertake it. The volume of business done by money dealers was directly and indirectly increased by undertaking such services as the collection of rents on behalf of landowners which enabled them to obtain additional cash reserves and deposits of actual coins.

Beginning of Modern Credit System.

The growth of the system of credit due to the introduction of paper credits, and the volume of transactions effected by the Goldsmiths, caused many persons in various parts of the country who were able to inspire public confidence, to commence business as money agents and bankers, and this was the real beginning of that intricate credit system upon which modern industry, trade, and commerce have been built. The system grew in almost direct proportion to its public convenience and to the extent of the facilities which the use of vouchers or paper credits afforded to the trading and producing classes. Individuals with deposits of money in Lombard Street were able to liquidate debts by means of the transfer of slips of paper quite as easily as by the transmission of actual coins, and persons receiving such vouchers could similarly pass them on readily to third persons with the knowledge that they would be accepted in the legal discharge of debts, and that gold could be obtained upon demand from the money dealers by simply presenting the vouchers. The value of this paper money terminated when the Goldsmiths were called upon to redeem in gold, but as the demand for actual gold decreased with the development of paper money, dealers and bankers throughout the country were able to create about ten times as much credit as was represented by the reserves of gold actually in hand.

Foundation of Bank of England.

The strain on the resources of existing money agents became so acute with the growth of trade that it was found necessary to have a central institution for the provision of credits on a larger scale to those engaged in profitable industry, and to meet this demand the Bank of England was founded in 1694 with a capital of £1,200,000, representing an amount lent to the Government at 8 per cent interest and which was the beginning of the National Debt of this country.

Great Growth of Banking Business.

The need for a satisfactory and thoroughly efficient banking system has been very clearly demonstrated by the stupendous growth of banking business during the past two hundred years. The growth has been, perhaps, most remarkable since 1893, when the amount of the deposits in the custody of the banks of the United Kingdom aggregated only £680,000,000, as compared with a total of nearly £3,000,000,000 during 1922. This amount does not, of course, consist of actual legal tender money. In fact the amount of legal tender money in circulation throughout the country in 1922 averaged less than one-tenth part of the total value of the deposits in the hands of the banks, and this reveals the extent to which credit facilities have been multiplied by banking action.

Bank Reserves.

The stock of actual notes and coin in the Bank of England, apart from bullion in the Issue Department, is the only guarantee for the liabilities of the banking and commercial system of the country, and many financial authorities are strongly of opinion that the actual cash reserve is inadequate to meet the requirements of the trading and producing classes. In this connection, the trader should distinguish between the requirements during a normal period, and the requirements of a panic or crisis. During normal times each individual banker must be held responsible for maintaining sufficient cash to meet demands, whereas the policy adopted by the Government is the chief factor controlling the banking situation in times of crisis. Normally there is, at any rate, some competition between the banks, each striving to attract customers by offering certain advantages, local or general. It is the aim of all bankers to keep a certain proportion of their liabilities in the form of cash reserves, although the exact nature of these reserves depends largely on the particular currency and credit system in operation at the time.

Bankers' cash reserves do not consist of legal tender only, but include credit balances at the Bank of England. These are supported by the money lent from day to day mainly to bill-brokers, which falls under the heading "Cash at call or short notice," which is different from a deposit in that it is not chequed away, and that it usually earns a higher rate of interest. The depositor keeping a balance idle at the bank, naturally does forgo some power of that command over capital which he might be expected to exercise, but this is taken advantage of by borrowers. As soon as the amount of credit exceeds the amount of cash in the London market, bill-brokers borrow from the Bank of England.

Deposit Receipt or Special Pass Book.

A depositor paying in money should insist upon a deposit receipt being given, or as an alternative, a special pass book in which the amount of the deposit is credited to the depositor. A Deposit Account pass book has distinct advantages in that it is less likely to be lost, and the exact state of the account can readily be seen by referring to it, providing the pass book has been entered up to date. It is a common practice for bankers to initial each item entered in this pass book, in the same way as the items in a Post Office Savings Bank Book are initialed. Whether money is paid in or withdrawn, the book must be handed in at the bank.

Transactions on Deposit Account.

A person paying in money on Deposit Account becomes a creditor of the banker, although the

money is then absolutely at the disposal of the banker, who may invest it, lend it, or keep it as cash reserve. The customer, however, always possesses the right either to demand that the net amount standing to the credit of the account at the bank be returned, or to draw a cheque or cheques upon the bank not exceeding this amount, providing the required notice is given to the banker of the intention to do so.

The customer can arrange with the banker that accepted bills of exchange be debited to his account at their due date, and may often succeed in arranging that the banker accepts bills on his

Disclosure of Bank Account.

Whether persons engaged in banking are bound to secrecy in matters relating in any way to customers' accounts and affairs has recently been questioned, but in certain special cases a banker is obliged to give evidence in a court of law regarding items in a customer's account in the books of the bank.

Hoarding.

Years ago, it was the practice to hoard money, and even during recent financial crises individuals have drawn large sums of money from their



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BANK COUNTER, SHOWING GRILLE, ETC.

behalf. There are always considerable sums of money standing to the credit of the Deposit Accounts of customers, and which have neither been added to nor drawn upon for a considerable period. The Statute of Limitations applies if such money has been lying dormant with a banker for a period of six years, but in practice a banker does not take advantage of the Statute, being at any time quite ready to repay according to the arrangement originally made.

In addition to depositing, any individual can leave money in the hands of a banker to be withdrawn upon so many days' notice. Interest is allowed by bankers on deposits of cash, and these interest rates vary to some extent with the different banks throughout the country.

Deposit Accounts at perfectly solvent banks and financial institutions, preferring to hoard it and to lose interest, and to experience constant anxiety as to its possible loss through fire or burglary. To lock up money in an unproductive manner when it might be judiciously and securely invested and considerably augmented is now, however, generally considered to be very bad business.

The trader should always endeavour to secure the maximum yield from an investment, but too much eagerness for high dividends frequently results in a loss of capital, whereas in a bank deposit a good rate of interest can be secured with practically no risk at all. There is, of course, a risk in all securities, otherwise there would be

no interest accruing. Banks usually possess a reserve fund in solid and readily realizable securities, a proportion of which is written off annually. Bankers do not retain customers' deposits in order to repay them all at short notice, but the cash reserve is an index of a banker's solvency.

Owing to the system under which British bankers are obliged to guide the channels of credit, the solvency of the banks is often possible of continuance only by penalizing the trade and commerce of the country by means of a high bank rate, which checks borrowings and results in a very substantial depletion of Deposit Account balances. Credit is produced by new money, or purchasing power manufactured by banks.

National Credit.

That the value and the importance of the use of credit in the efficient and successful expansion of business in any branch of industry is appreciated by business men hardly needs emphasizing, yet one of the most noticeable features of the present time is the almost universal disregard of the advantages to be secured by the wise utilization of the credit of the nation in the interests of British trade. Money, whether in the form of credit, gold, or paper, is an excellent servant, but a very exacting master, and it cannot be denied that the serious depression periodically prevailing, both in the volume of internal and external trade transactions and in the markets of the world is due largely to the supremacy of finance over trade, whereas the function of money should be adapted to the requirements of industry, trade and commerce.

CHAPTER IV

OPENING AND CONDUCTING AN ACCOUNT

IN opening a banking account for the first time, it is the custom for the trader to have an interview with the manager of the bank for the purpose of arranging the terms, and to sign the bank's autograph book. Some bankers insist upon references being given as to the customer's standing in the locality, and as to his previous banking record, although if there is no definite intention or prospect of overdrawing the account, this is not always the case, providing the banker is assured that the account will at all times show a reasonable balance to the credit of the customer.

Joint and Partnership Accounts.

The banking account of a trader carrying on business on his own account and at his own risk, concerns only himself and his banker, whereas a joint account is one kept in the name of two or more persons. Unless all the parties to a joint

account are to sign the cheques drawn, the banker should be given a written authority, signed by all the parties, stating who may sign cheques drawn on the account. If no such authority is given by the parties to a joint account, the cheques must be signed by all of them, but on the death of one the balance may be chequed out by the other or others. Any of the parties may cancel an authority at any time.

Company Accounts.

Where an account is opened in the name of a company incorporated under the Companies Acts, the bank will require production of its certificate of incorporation, and also, in the case of a new public company, the Registrar's authority to commence business. A copy of the Memorandum and Articles of Association will also be wanted. There should be a resolution of the Board of the company with regard to the opening of a banking account, and a certified copy must be given on a form supplied by the bank. It is necessary, also, that any changes in the signatures should also be notified to the bank by certified copies of resolutions relating thereto.

Cheques.

Upon making the first deposit into a Current Account, the customer will receive a cheque book to enable him to draw on the account from time to time as required. As a rule, cheques are supplied in books of 12, 30, 60, etc., by the banks to each of their customers, and only the stamp duty is debited to each customer's account. With the view to uniformity and convenience, and as a safeguard against fraud, the cheque forms are appropriately designed and delicately tinted. It is not, as a matter of fact, absolutely necessary to have a cheque book at all, for a customer having a sufficient balance at the bank could write out a cheque on a piece of ordinary notepaper and the banker would be obliged to meet it, providing it is *bona fide*. It is not even absolutely essential that the cheque form should be stamped by the customer, for the stamp duty could be deducted from the amount to be withdrawn. Although it is quite legal, there is no useful purpose served by the customer's making out cheques on slips of paper, and as the banks do not charge for the cheque forms themselves, it is the common practice to use only the special cheques supplied by banks at their own expense and for the convenience of their clients. The signing of the autograph book is necessary in order that the banker should be fully acquainted with the precise style of the customer's signature which will be shown on the face of each cheque passing through the withdrawals side of the account.

Bankers naturally exercise care to ensure that no person shall secure either a cheque book or a single cheque form except those who are customers

of the particular bank, so that if a trader or individual having an account should send a clerk to the bank for the purpose of obtaining another cheque book, it would be necessary to send also a written and properly signed application which is usually made on a small printed form supplied for this purpose.

Paying-in Slips.

The payment of money into a banking account is effected by handing over the amount, whether in the form of cheques, bills, drafts or coin, along with the credit slip, across the counter of the bank. Credit slips are supplied by bankers in book form, each form consisting of two unequal parts, the smaller part being the counterfoil which is retained in the book, and the larger part (after being filled in) being torn off and handed to the banker, at the same time as the money is deposited. The counterfoil portion should be signed by the cashier receiving the money, while the larger portion is signed by the depositor.

A specimen form of a Paying-in Slip is shown in the opposite column.

Cheques Should be Banked at Once.

A cheque is intended for prompt presentation, and not to act as currency to any extent, except between the immediate parties. It is the exception to find more than one endorsement on an inland cheque, and it is false economy to pay away to third parties cheques received from debtors in payment of accounts, in order to save the twopenny cheque stamp. They should be banked at the earliest possible moment. The facilities of a banking account are nowadays brought within the reach of all. If cheques are received from persons other than the drawers, their endorsements should be insisted upon and the cheques paid into the bank not later than the day after receipt.

"No Account."

If a banker returns a cheque to his customer marked "No account," and this cheque has been received by the trader from one of his customers and paid into the bank, it should be understood that the drawer of the cheque has no banking account to meet the sum specified. Proceedings should be taken against the drawer for obtaining goods, etc., by false pretences.

Postal Orders.

Postal orders, like cheques, may be crossed, and payment made only through a bank. At one time the negotiable character of a postal order was considered doubtful, so that the words "not negotiable" are now printed on them, and the holder of a postal order, the transferor of which had no title, must restore it to the rightful owner on demand.

		, 19 .	
	£	s.	d.
Gold	.	.	.
Silver	.	.	.
Copper	.	.	.
Treasury Notes	.	.	.
Other Notes	.	.	.
Cheques and P.O.O.	.	.	.
Bills	.	.	.
.....			
CURRENT ACCOUNT.			

LLOYDS BANK, LIMITED,			
BROMSGROVE.			
		, 19 .	
CREDIT			
.....			
Gold	{	Sovs. £ . . }	
		Half-sovs. £ . . }	
Silver	.	.	.
Copper	.	.	.
Treasury	{	20s. £ . . }	
Notes	{	10s. £ . . }	
Other Notes	.	.	.
TOTAL OF CASH		.	.
Cheques,	}		
Bills,			
P.O.'s, etc.			
Received by.....		£	
Paid in by			

Payment for Credit at Branch Banks.

The trader having a banking account may deposit money at any branch office of the particular bank, for the credit of his account, and should notify the manager of the branch at which the account is kept, of his intention to deposit at another branch.

the finder of, a lost note may retain it against any person except the true owner, and a person taking such a note from the finder in good faith and for value may retain it against all persons, including the lawful owner.

Notes by Post.

Sometimes bank notes are cut into halves for forwarding by post under separate covers for the



By permission

The B.T.H. Co., Ltd.

EXPERIMENTAL WORKSHOP
Lighted by Mazdalux reflector units

Stopping Payment of Notes.

Notes issued by a banker cannot be stopped by himself, and any holder for value may, without notice of loss or theft, compel the banker to pay a note. Although by stopping payment of a note its course since loss or theft may be traced, the *bona-fide* holder of it is quite secure, and cannot lose by possession. For registering a notice to stop the payment of a note, the Bank of England charges 2s. 6d. The number of a lost bank note very often enables the loser to trace the note. Bank notes are negotiable instruments, so that

sake of safety. Before being presented for payment, the halves are pasted together, and this does not affect negotiability of a note, although a banker would refuse to pay a cheque or bill so mutilated.

Bills for Collection.

Bills of exchange received should be endorsed and paid into the bank along with a Credit Slip, for collection in the same way as cheques. The amount received by the banker in respect of bills collected will be credited to the customer's account.

Cash Orders.

A cash order, which is very much like a bill of exchange on demand, addressed by one person to another, must be endorsed by the banker to whom it is made payable, or by the drawer if payable to the order of the drawer. A cash order is sent to the drawee's banker for collection, the banker sending out a messenger, and presenting the order for payment, which should be effected in cash if the solvency of the drawer is not known, although if it is known that the drawer is perfectly solvent, payment can be effected by cheque.

In some localities, it is the custom for the drawee to accept a cash order payable at his bankers, in the same district, and this should be passed through the local clearing on the same day. Should the drawee not be present when the messenger calls it is usual for a note to be left, intimating that the order requiring attention is at the bank. Although cash orders are not, generally speaking, accepted by the drawee, who consequently cannot be sued upon them, he can nevertheless be sued upon any cheque given in exchange and which is dishonoured. Cash orders received for collection, in cases where they are being held over till the following day, should be credited on the day of receipt to the sending bank. There is a stamp duty on cash orders, and as they give great trouble to bankers, many now decline to deal with them.

How to Correspond with your Banker.

If cash is sent to the bank through the post for the credit of an account, as an alternative to going to the bank to deposit it, a letter on the following lines should accompany the cash—

Central Chambers,
Central Buildings,
Old Square,
Birmingham.

-----, 192__.

THE MANAGER,
LLOYDS BANK, LTD.,
NEW STREET,
BIRMINGHAM.

Dear Sir,—

I enclose herewith £35 15s. for the credit of my Current Account, made up as follows—

	£	s.	d.
Cheques . . .	25	15	-
Treasury Notes . . .	10	-	-
Total . . .	£35	15	-

Kindly acknowledge in due course, and oblige,

Yours faithfully,

(Signed) EDWARD JONES.

Occasionally a trader may desire to have legal tender notes or coin sent to him through the post, it being inconvenient to make the journey to the

bank. In such a case a letter on the lines indicated below should be sent—

High Street,
Stratford-on-Avon.
-----, 192__.

THE MANAGER,
LONDON JOINT CITY & MIDLAND BANK, LTD.,
WORCESTER.

Dear Sir,—

I enclose herewith cheque payable to bearer, amounting to £20, and should be glad if you would kindly send me twenty £1 Treasury Notes by registered post to above address by return.

Please debit my account with the expenses, and oblige,

Yours faithfully,

(Signed) WALTER BERRY.

The following letter should be addressed to the banker in the case of a customer requiring the pass book for inspection, or for audit—

Elm Street,
Leamington.
-----, 192__.

THE MANAGER,
BARCLAYS BANK, LTD.,
COVENTRY.

Dear Sir,—

PASS BOOK DEPARTMENT.

I should be obliged if you would please have my Pass Book written up to date and sent to me, by return post, for audit purposes.

Yours faithfully,

(Signed) CHARLES BOOTH.

How to Check Bank Charges.

Bank charges debited to a customer's banking account in the pass book, usually at the end of each half-year, can be checked by ascertaining the daily balance overdrawn for each day during the period, and adding these daily balances and dividing by the number of days over which the account was overdrawn. The usual charge is 1 per cent above the current Bank of England rate, with a minimum of 5 per cent, although the latter percentage varies to some extent in the case of different banks but bears some relation to the value of money prevailing at the time. The following method of calculating bank charges will be found to afford a sufficient check upon the amount debited in the customer's pass book, and if any serious difference is shown between the amount entered in the pass book and the amount arrived at by the trader by the method indicated below, the manager of the particular bank should be informed immediately so that the computation can be checked by the bank. It is the rule for bankers to ascertain the charges to be debited, by means of printed interest tables, and it is, of course, quite possible for a mistake to be made which would have the effect of unduly burdening the customer to some extent with charges that have not, in point of fact, been incurred.

METHOD OF CHECKING BANK CHARGES.

PERIOD—HALF-YEAR ENDED 31ST DECEMBER, 192..

Date.		Withdrawals.			Deposits.			Balance.						Days.	Product.				
								Dr.			Cr.								
192..		£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	7	£	s.	d.	Cr.	
July	1 Cr.	Bal.			13	10	—	13	10	—					94	10	—		
"	8	154	6	6	72	15	3	68	1	3				5	340	6	3	Dr.	
"	13	96	11	11	105	14	2	58	19	—				9	530	11	—	Dr.	
"	22	114	19	7	66	16	4	107	2	3				7	749	15	9	Dr.	
"	29	81	13	8	52	10	—	136	5	11				7	954	1	5	Dr.	
Aug.	5	75	14	9	83	13	11	128	6	9				3	385	—	3	Dr.	
"	8	269	17	11	202	—	—	196	4	8				11	2,158	11	4	Dr.	
"	19	13	16	—	100	6	1	109	14	7				3	329	3	9	Dr.	
"	22	104	16	5	51	19	9	162	11	3				13	2,113	6	3	Dr.	
Sept.	4	77	7	7	110	10	—	129	8	10				5	647	4	2	Dr.	
"	9	303	—	6	214	10	10	217	18	6				7	1,525	9	6	Dr.	
"	16	6	6	—	56	19	3	167	5	3				7	1,170	16	9	Dr.	
"	23	81	5	4	93	14	—	154	16	7				7	1,083	16	1	Dr.	
"	30	88	—	9	61	12	10	181	4	6				12	2,174	14	—	Dr.	
Oct.	12	161	13	7	119	2	8	223	15	5				2	447	10	10	Dr.	
"	14	55	15	5	50	16	4	228	14	6				7	1,601	1	6	Dr.	
"	21	100	10	1	25	—	—	304	4	7				4	1,216	18	4	Dr.	
"	25	14	14	—	76	10	5	242	8	2				10	2,424	1	8	Dr.	
Nov.	4	99	19	9	110	15	6	231	12	5				7	1,621	6	11	Dr.	
"	11	—	—	—	14	14	—	216	18	5				7	1,518	8	11	Dr.	
"	18	55	10	—	—	—	—	272	8	5				12	3,269	1	—	Dr.	
"	30	61	1	4	—	—	—	333	9	9				2	666	19	6	Dr.	
Dec.	2	3	3	—	97	16	4	238	16	5				3	716	9	3	Dr.	
"	5	—	—	—	12	12	—	226	4	5				11	2,488	8	7	Dr.	
"	16	114	16	11	51	10	6	289	10	10				7	2,016	15	10	Dr.	
"	23	42	14	4	115	16	7	216	8	7				6	1,298	11	6	Dr.	
"	29	—	—	—	16	16	8	199	11	11				3	598	15	9	Dr.	
TOTALS		2,177	15	4	1,978	3	5							184	34,047	6	1		

Average Daily Balance = £185 - 9
 £185 0s. 9d. @ 4% p.a. for 184 days = £3 14 8

CHAPTER V

CHEQUES

BEFORE the adoption of money as a medium of exchange, business was possible only on the simple principle of barter, but with the growth of trade and commerce, and the consequent subdivisions of labour, a better method of exchanging commodities of all kinds became absolutely imperative. The development of individual production necessitated the universal adoption of an instrument of convenience against which goods could be exchanged, and in the cheque drawn on the Current Account we have a medium of exchange which is representative of all things useful and material having any exchange value at all.

A cheque is a stamped order made by the drawer thereof upon a banker to pay a definite and specified sum of money to an individual, firm or company stated and known as the payee, or to the bearer thereof. Each cheque form consists of two parts, usually unequal in size, divided by perforation, the left-hand part called the counterfoil, being filled in for record purposes, and the right-hand part, usually the larger oblong part, being the actual cheque form itself, which is torn from the counterfoil at the dotted line which separates the two parts, and after being filled up in ink is given to the party to whom it has been made payable.

Use of Cheques.

While restricting the issue of notes, the Bank Charter Act of 1844 had no bearing at all upon the circulation of cheques as media of exchange, and consequently the huge majority of the payments made in this country to-day are in the form of cheques which enable traders with Current Accounts to authorize other traders, etc., to withdraw the money. A cheque, therefore, when signed by a person of good repute and good credit, has the same purchasing power as legal tender money of the same nominal amount. Bankers being prohibited by the Bank Charter Act from advancing credit in the form of notes, fell back upon the cheque system, trusting that the amount of cheques drawn upon them daily would be balanced by the payments into the bank, and in this way modern industry, trade, and commerce have been expanded during the past eighty years.

Signature on a Cheque.

An ordinary cheque is really a paper promise to pay on demand, directing payment by the banker to a specified third party, or to bearer or to the customer himself. A banker has no authority to pay a cheque drawn against him if the customer has stopped payment in writing, or if he receives notice of the bankruptcy or death of his customer, or in the event of the operation of a Garnishee

Order, which is a notice sent to persons owing money to judgment debtors, or who hold goods, etc., belonging to judgment debtors, warning them not to transfer such money or goods.

In the case of joint stock companies, it is very necessary to remember that cheques should show on their face the fact that they are drawn on behalf of the company, otherwise the person signing can be held personally liable. The words "For Messrs. Company, Limited" are often inscribed by means of a stamp. The person authorized to endorse cheques on his own initiative, on behalf of a company, should do so in the following way—

On behalf of Limited

Secretary.

When the manner in which cheques are to be signed has been determined, the banker should be immediately notified, and any modification or alteration of this arrangement in the future should be made known to the bank manager of the branch at which the account is kept.

Drawing a Cheque.

A cheque can be drawn to be made payable either to bearer or to order. A bearer cheque does not require endorsing, and is payable to the possessor thereof, i.e. any individual who may present it at the bank. A cheque payable to order, which is by far the most common kind, must be endorsed by the particular individual to whom it has been made payable, otherwise the banker will refuse to cash it. The actual endorsing is performed by the person in whose favour the cheque is drawn, signing his name on the back of the cheque exactly as shown on the face of the cheque form itself. As the banker is not necessarily acquainted with the signature of the payee he is not liable if he pays a cheque with a forged endorsement. For instance, a cheque made out to "W. Evans or order," and not crossed, would, if signed as "W. Evans" on the back, even by another person, be passed by the bank if there was no reason to believe it was a forgery, and the amount would be charged to the account of the drawer.

Endorsing a Cheque.

When endorsing a cheque, the payee should sign his name exactly as it is on the face, even if his name has been incorrectly stated. Thus, if E. T. Brown receives a cheque made payable to E. T. Brown, he should endorse it—

"E. T. Brown
 E. T. Brown"

Titles such as Mr., Mrs., Miss, Dr., Colonel, Esq., etc., should be omitted.

Payment of Cheque.

To present a cheque is to take it to the particular bank named on the face of the cheque, requesting that the specified amount of cash should be given to the bearer in exchange for it. If the drawer's account is overdrawn, i.e. if the customer owes a balance to the bank, or if the balance in favour of the drawer is insufficient in amount to cover a cheque presented, the banker will refuse to cash or meet it, and will return it to the bearer marked either R/D which is an abbreviation for "Refer to Drawer," or "N/S" meaning "Not Sufficient Funds." A cheque so marked and returned is said to be dishonoured, and the legal holder should immediately notify the drawer of the fact and should ask either for legal tender money in lieu thereof, or to receive satisfaction that the drawer will immediately cover another cheque of the same amount by depositing a sufficient amount of money into the account to cause the bank to meet it. Although the bank has refused to cash or meet a cheque exceeding the amount of the drawer's credit balance, smaller cheques not exceeding in the aggregate the amount standing in the customer's favour will nevertheless be duly honoured upon presentation.

"Or Order."

The words "Or Order" following the name of the payee on the face of a cheque, signify that by endorsing the cheque the payee may legally authorize or order another person to receive the specified sum of money. Consequently, until it has been properly endorsed, an order cheque is not negotiable, and differs from a bearer cheque which is negotiable without endorsement, although some banks often request that cheques made payable to bearer be endorsed upon presentation. If the words "order" or "bearer" are omitted or struck out, the cheque would be treated by the bank as an order cheque and would have to be endorsed.

Cheque Crossings.

To cross a cheque is to draw two parallel lines transversely across the face, with or without the words "& Co.," "not negotiable," "Under Twenty Pounds," etc., or the name of a bank between them. A cheque is also crossed if only the name of a bank is written across without the two lines. Examples of ordinary and special crossings are shown at head of opposite column.

A crossed cheque cannot be cashed upon presentation at the bank, but must be paid into the banking account of the payee. The banker will credit the payee's account with the amount specified, and will collect the sum from the banker named on the cheque. An ordinary crossing has the same effect as writing across it "payable only through a bank," and a special crossing signifies

ORDINARY CROSSINGS.

& Co.
Not negotiable
Not negotiable

SPECIAL CROSSINGS.

Lloyds Bank Ltd., Leeds.
Lloyds Bank, Ltd., Dover.
Lloyds Bank, Ltd., Hull.
Not negotiable.

that the amount should be paid "through this bank only." Cheques sent through the post should always be crossed for safety. An individual receiving a crossed cheque and having no banking account must either transfer it to an individual who has a banking account, or pay it into a bank for collection, which takes a few days to effect and for which the banker will charge a small commission.

"Opening a Crossing."

By writing the words "Pay Cash" and initialing same, the drawer of a crossed cheque can cause it to be treated as an open cheque, i.e. a cheque which is not crossed. Only the drawer can do this, as the banker will not pass a crossed cheque so marked, unless the alteration is accompanied by the drawer's signature, which is the only guarantee the banker possesses concerning the real intention of the drawer. In drawing a cheque so as to ensure that only the payee, as stated, will obtain the cash, it must be specially crossed and marked "not negotiable," and the printed words "or order" must be struck out and the word "only" substituted, the latter being initialed by the drawer.

Date of a Cheque.

When filling up the cheque form, the drawer should show the date upon which it is desired that the payee should present it for payment, as an undated cheque will be refused at the bank, and returned marked "Incomplete." A post-dated cheque, i.e. a cheque dated ahead of the date of actual drawing, cannot be cashed before the date given, although an ante-dated cheque can always be cashed within a reasonable period of time, always providing, of course, that the account upon which it is drawn, shows a sufficient balance in favour of the drawer.

Payee's Name.

The payee's name should be written clearly, otherwise it may be difficult for the banker to satisfy himself that the cheque is regular. A cheque drawn for the purpose of being cashed by the drawer, should be made out to "self" or "selves," according to whether the account is in the name of an individual, firm, or company.

Amount.

In the body of the cheque, the amount should be written in words, and in figures at the left-hand bottom corner. This is done to minimize the danger of any mistake or uncertainty, and also as an effective safeguard against fraud. Legally, a banker is bound by the words, and if only figures

accept it without a positive assurance of its *bona fides*. A banker is legally bound to know his customer's signature, and if he pays or passes a cheque with a forged signature, the banker must make good the amount at the request of the drawer. This applies also if the body of a cheque is forged in part the banker being legally compelled to know the handwriting of all his customers.



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STRONG ROOM OF A BANK
Showing steel rolling bookstacks with adjustable shelves

were given, it would be incomplete, but if the words and the figures do not agree it is usual for the banker to return the cheque to the drawer, marked "amounts differ." Any alteration in the amount stated must be properly initialed by the drawer to avoid the cheque being dishonoured.

Signature.

At the foot, the drawer's signature must be clearly and boldly written, and should agree in all essentials with the signature in the bank's autograph book, otherwise the banker will refuse to

Stopping Payment of a Cheque by Telegram.

Sec. 75 of the Bills of Exchange Act provides that the authority of a banker to pay a cheque drawn by his customer is determined by countermand of payment. In *Curtice v. London City and Midland Bank* (1908, 1 K.B., 293), the question of stopping a cheque by telegram came before the Courts, and it was held that a telegram was a good countermand of payment, if it came to the knowledge of the bank, and that a cheque could, therefore,

be stopped by telegram. The case was afterwards taken to the Court of Appeal, and the Master of the Rolls stated: "A telegram may reasonably and in the ordinary course of business be acted upon by the bank, at least to the extent of postponing the honouring of a cheque until further enquiry can be made. But I am not satisfied that the bank is bound, as a matter of law, to accept an unauthenticated telegram as sufficient authority for the serious step of refusing to pay a cheque."

Upon receipt of a telegram, the bank would postpone payment pending a confirmation of the wire, and the cheque would be returned with a request for re-presentation.

Mutilated Cheque.

A banker will, as a rule, return a cheque which has been mutilated, to the drawer, marked "cheque torn" or "cheque mutilated," unless such mutilation has been confirmed by the drawer as not cancelling the cheque.

Difference Between Cheque and Bank Note.

Although the cheque system can be correctly said to minimize the necessity of issuing bank notes, the fundamental difference between the cheque and the bank note should not be overlooked by the trader. There is no difficulty whatever in circulating a bank note, even among individuals ignorant of the honesty of bearers, inasmuch as it bears the universally recognized banker's guarantee of payment, whereas a cheque carries no definite assurance of payment and should be accepted only from those individuals, firms, or companies of established reputation, or of whose integrity the trader is certain, or if it is reasonable to suppose that such will not be dishonoured.

The great development of the cheque system is to a very great extent the result of the inadequacy of the volume of notes in circulation at any given time. The cheque is, of course, a private credit instrument used to effect exchanges of goods and services, and its usefulness is universally acknowledged, although in practice it seldom circulates beyond the actual payee. Between ordinary people unknown to each other and whose individual *bona fides* has not been advertised, the cheque is practically useless as a medium of exchange, and consequently the greater part of ordinary domestic purchases are transacted by means of the transfer of legal tender money.

Not Negotiable Cheques.

Although in the ordinary way a cheque is an instrument which negotiates freely, the property in which passes by mere transfer, a crossed cheque is outside the category of negotiable instruments if the words "not negotiable" are written across

the face of it. The transferee of a "not negotiable" cheque cannot claim a better title to it than that which the transferor had, and if it is stolen or its endorsement is forged the holder has no title as against the true owner. Any holder of a crossed cheque may add the words "not negotiable" thereto, and the cheque may be paid into the payee's or transferee's account. The words really act as a warning that the cheque should be accepted subject to any defect in the title of the transferor. Cheques marked "not negotiable" without parallel lines across them are not crossed cheques.

Alteration of a Cheque.

Any alteration of a bank note automatically renders it void, but this is not necessarily so in the case of a cheque, although the receiver would be well advised to refuse a cheque which has been altered, whether the alteration is material or not. All alterations must be signed or initialed by the drawer or drawers, and to prevent alterations in the amount, which is the most serious matter in connection with cheques, numerous devices are available to the business man, designed to effectively overcome any fraudulent intent. For example, if a cheque is made out for £8 16s. 5d., the words "under ten pounds" could be stamped across it, or if the cheque is for £72 16s. 5d. the words "under seventy-five pounds" could be perforated. Some business houses to-day use special paper which will immediately show any alteration, or any use of chemicals for erasure. The use of Cheque Protectors (*see* Section 15, OFFICE MACHINES AND APPLIANCES) is also extensive in London and the chief industrial cities and towns, and could with advantage be adopted by any trader, whether big or small.

Dishonoured and Unpaid Cheques.

If sufficient money is not in the bank to meet a cheque drawn on the account, the banker will return the cheque marked R/D signifying "Refer to Drawer," or N/S meaning, "Not Sufficient Funds," and the cheque is then said to be dishonoured. In respect of a dishonoured cheque the payee's right of action is against the drawer and not the banker, and cash should at once be demanded from the person from whom the cheque was received.

Cheques by Post.

The drawer of a cheque is responsible if a cheque is lost or goes astray through being sent by post, having, in point of law, chosen the post as his agent, the consequences of which he must therefore bear. If, however, the payee requests that a cheque should be forwarded by post, the sender will be free from responsibility in the case of loss or miscarriage, the post being in such cases the

agent of the payee. Cheques sent by post should always be crossed.

Lost Cheques.

The loser of a cheque should immediately ask the drawer to give notice to the banker on whom it is drawn, to stop payment, and the banker should notify any branches at which the cheque might be presented. A banker is liable if he pays a cheque after receiving instructions from the drawer to stop payment, and he cannot debit the amount to the account of his customer. An innocent holder of a lost cheque, the endorsement of which has been forged, has no recourse against the drawer, and the true owner can demand payment. In the event of the innocent holder having obtained payment from the drawer, he is then liable to the true owner. The innocent holder for value of a bearer cheque can compel the drawer to pay, and the loser of the cheque must, in such a case, bear the loss.

If creditors habitually receiving cheques from their debtors, were to be regarded, by the general course of dealing, as prepared to risk loss in transit, a serious retarding influence on the efficiency of the cheque system would be felt. No such inference can, however, be drawn from the usual course of dealing.

Cheques Drawn for Wages, Petty Cash, Etc.

A cheque drawn and made payable to a non-existing payee, such as "Wages," "Petty Cash," "Salaries," etc., may be treated as a bearer cheque and will consequently not require endorsing. Although the majority of bankers will readily cash such cheques without endorsements, some banks request the individual actually drawing the cash to sign on the back of the cheque. A few bankers insist upon the signature of the drawer being written on the back of such cheques, but this is the exception and not the rule.

Cancelled Cheques.

A banker can retain a cheque as a voucher pending a settlement of account between himself and his customer, or until the latter agrees, either specifically or by implication, that the entries in the pass book are correct. Many London bankers return the cancelled cheques to their customers, placing them in the pocket of the pass book which is sent at the same time. Unless asked for, however, the majority of provincial banks do not return cancelled cheques to their customers, but if the trader desires to have them returned this can be arranged with the local bank manager who will require the trader's confirmation of the correctness of the pass book entries, or a confirmation of the balance outstanding.

CHAPTER VI

CASH CREDITS, LOANS, AND OVERDRAFTS

An increase of business operations and of commercial transactions necessitates an increase in the amount of working capital required to finance the general trade of the country, and this working capital is made fluid chiefly by bankers in the form of bank credits, loans, and overdrafts.

Unless the quantity of legal tender money under the control of the banks increases with the expansion and development of industry, trade and commerce, the strain on the resources of the banks compels them to restrict credits in order to avoid abnormal demands for legal tender. Each banker knows by experience the amount of legal tender money which is likely to be demanded, and a sufficient reserve must be kept to satisfy these demands, according to the aggregate of the outstanding credits. The increase in the general level of commodity prices to-day as compared with the period immediately preceding the Great War, calls for much more working capital to conduct business operations as a whole, and this necessarily involves a very considerable expansion of bank credits, and an increase in the amount of legal tender currency, and the ability of bankers to grant the necessary credits to facilitate trade expansion depends very largely on the extent of their command of currency. The amount of currency in circulation is, in turn, one of the chief factors governing the current Bank of England rate of discount which is the pivot of the whole Money Market.

Banks and Loans.

As banking consists principally of borrowing and lending money and credit, any material lessened demand for loans on the part of the trading and producing classes of the country is sooner or later reflected in a diminution of banking business, and this is usually followed by a lowering of the bank rate and a resulting increase in the total of outstanding bankers' advances. A lowering of the rate of interest charged on borrowed money or credit results in an expansion of trade, and consequently the transfer of more legal tender to the banks in the ordinary way of depositing takings, etc. During a period when the demand for loans and bank credit is small in consequence of the relatively high interest rates, traders are often called upon to reduce their overdrafts absorbed in production or to provide collateral security, or both.

The classical economists of the eighteenth and the nineteenth centuries did not consider it necessary to emphasize the enormous difference between an expansion in the volume of currency and credit for utilization in profitable industry,

and the absorption of currency and credit in unproductive channels. To-day, however, it is almost universally realized that the extent to which the production of wealth can be beneficially increased depends almost entirely on the volume of currency and credit available to traders, manufacturers, and merchants. The greater part of the floating capital of the country may be regarded as pooled, and although the ability of the banks to grant loans is limited, it does not necessarily follow that they are unable to create credits without cash reserves. A bank agreeing to lend a certain sum to a trader, who draws a cheque payable to another trader who deposits it with the same bank, increases at the same time its total assets and its total liabilities, the interchange through the clearing house resolving such (and indeed most other) cheque transactions into mere book-keeping entries, the aggregate reserve of the banks being unchanged. Bankers as money dealers, facilitate the circulation of capital which is made fluid for industrial and commercial purposes, lending out deposits to those desiring working capital. But it would be unwise for any bank to lock up its resources in a permanent form, as the history of English banking clearly demonstrates. Banks do not encourage the transacting of the business of a loan office and endeavour to ensure as far as possible that no customer shall have an undue proportion of their money.

Principal Question in the Banker's Mind.

The chief points which any banker will bear in mind in considering a customer's application for an overdraft or loan, are the length of time required by the customer before repayment; if it is reasonable to suppose that the advance will be repaid exactly as stated; the object for which the advance is required; and the exact nature of the security offered.

Advance Should be Reasonable.

Any advance should be reasonably proportionate to the customer's turnover, for the utmost confidence is reposed in our great bankers who, as controllers of large amounts of capital, are trained to see that it is made to circulate to the best advantage and in the general interest. The bolstering up of decaying industries which cannot reasonably be expected to flourish on their own initiative, is not the business of our banks. Money and credit, in so far as it is issued for purposes of production, or for purposes resulting in an increase in the aggregate wealth of the nation, inevitably improves the economic position of the people as a whole. Moreover, the real object of applying modern science, inventions, and labour-saving devices to industry is to increase the production of exchangeable goods, but unless this is accompanied by an adequate increase in the supply of

money and credit, the factories and workshops throughout the country become filled with goods of all kinds which cannot be sold, owing to the insufficiency of national purchasing power. Money issued, however, for the purpose of enabling individuals or groups to speculate, is one of the chief direct causes of an inflation of general commodity prices, owing to the fact that additional money is put into circulation without an addition to the quantity of actual goods on the markets to balance and offset the extra purchasing power.

Advances Against Commodities.

In practice, the average trader is, perhaps, most interested in those advances made by bankers against commodities, debts, real property, and securities, as well as unsecured advances and discount accommodation. In the past, advances against goods and produce were considered by the majority of bank directors and shareholders to be too speculative, by reason of the instability of markets, and the inevitable deterioration of produce, both of which render a realization very difficult. Advances against commodities should facilitate trade by being on the basis of the trader's ordinary business, and are generally of a temporary nature, usually not exceeding four months, so that the money is speedily turned over. This form of accommodation to legitimate traders very greatly economizes the use of capital, and the competition for such advances in the future will, without doubt, be very keen. If the borrower possesses a substantial excess of assets over liabilities, he will have little difficulty in lodging additional cover at the call for margin by reason of market fluctuations in the prices of commodities. As a rule, bankers use special forms for agreements when advancing against documents, incorporating an undertaking by the borrower to maintain margins.

Collateral Security.

In addition to the principal security which the borrower provides for the repayment of a loan or a bank overdraft, bankers often require an extra or collateral security which is realizable if the principal security should prove insufficient. The term "collateral security" usually has reference to the deposit of documents giving a claim to real property, thus minimizing the necessity of legal proceedings being taken to recover a loan, as the banker or other creditor can easily and readily realize same.

Assignment of Debts.

During the period of the Great War, bankers advanced very considerable sums of money against Government contract receipts, and similar calls for money from the big banks will very probably continue for some time. Prior to the passing of the Judicature Act of 1873, debts could be assigned

in equity, although a debtor could be sued only in the name of the assignor, and the position remains unchanged to-day. If the intention is unmistakable, a valid assignment can be drawn up in any form of wording, but the particular debt or debts must be definitely indicated, and providing they are possible of identification, book-debts which will be outstanding at a future date

of business is not greatly encouraged by bankers as a body, as the assets possessed are not necessarily in liquid form, and advances made against them are practically certain to be renewed from time to time. In times of financial crises, bankers naturally have to draw on their available resources to a greater extent than is usual, and if their securities are unrealizable, or are not readily



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A WELL-LIGHTED DRAWING OFFICE
(Messrs. Guest, Keen and Nettlefolds, Ltd.)

The General Electric Co., Ltd.

can be assigned. The assignee of a debt payable in instalments is entitled to those instalments already earned, subject always to equities, but according to the Bankruptcy Act an assignee of book debts loses the right to any debt unpaid at the beginning of bankruptcy proceedings against the mortgagor if registration has not been effected within seven days of the assignment, or under a valid contract mentioned therein.

Advances Against Property.

Although British bankers do assist established traders on the security of sound assets, this kind

realizable, there is always the danger of a "run" on the part of depositors to withdraw money, and this danger is the real explanation of the market value of property being always considerably greater than the amount of money actually borrowed.

If deeds are the basis of negotiation it is distinctly better to insist upon a proper valuation of property, if only for the reason that previous valuations may be wholly unreliable in connection with an application for an advance. The guiding principle should be the prospective price to a purchaser in the event of quick realization,

after taking into account local conditions, age, conveniences, restrictions of usage, landlord's outgoings, and letting possibilities.

As a security to bankers, factories, mines and workshops are not very satisfactory, as they resemble leases inasmuch as depreciation and obsolescence necessitate the creation of special funds for redemption. Plant and machinery depreciate very rapidly, although the degree of such depreciation varies with the exact nature of the business.

Stock Exchange Securities.

Securities quoted on the Stock Exchange may, with a good margin, be considered as excellent banking cover, and the business man possessing securities has a form of security for a banker's advance which is at once convenient, inexpensive, and useful as collateral. First debentures of well-established industrial and commercial companies are much esteemed by bankers, as also are preference shares if well covered. The depositor of bearer securities is simply requested to sign a form giving the banker power to sell, if necessary, and to this the banker is strictly bound, and is only entitled to keep the securities against specified advances.

Trade Bills.

At one time the lending of money consisted almost entirely of discounting paper promises to pay on a definite future date, and the custom in many trades of liquidating debts by means of cheques in fourteen and twenty-one days has been a subject of no little regret on the part of the majority of bankers. The discounting of a bill practically means that the banker lends money and takes the bill as a security for the repayment of the loan, and the property in the document thereby passes into the hands of the banker, although under the endorsement of the customer or by agreement or custom, there is a right of recourse against the customer. Genuine trade bills are tangible and real security, and if based, as they should be, on circulating capital, are treated as such by the great majority of bankers. A banker has no lien on any credit balance of an account in respect of discounted bills, but if a bill is simply held as security and is not actually discounted the banker can sue for the overdraft any time during the term of the bill.

Other Securities.

Life assurance policies with good surrender values are quite satisfactory to bankers as security. Capital borrowed by limited companies is generally secured by debentures which are a first floating charge. Advances against promissory notes are, as a rule, of very short duration.

Unsecured Advances.

Apart from advances covered by the transfer of securities of one kind or another, a banker very often advances money to a trader on the strength of a properly certified and duly audited balance sheet. Applications for legitimate commercial accommodation are not refused by reason only of an absence of security. In this connection it should be realized that the balance standing to the credit of a trader's banking account is not sufficient in itself to guarantee that any reasonable advance made by a banker will be repaid, for the trader may be conducting business operations by means of borrowed money, or may be incurring other liabilities and actually making a loss on trading. Without the presentation of a certified balance sheet, a trader would not succeed in obtaining an unsecured advance, unless indeed very considerable and weighty outside evidence was given and accepted as conclusive and sufficient.

The only exception to this rule is the credit given to farmers by the big banks on the strength of the reports of their branch managers, who possess a personal knowledge of the character and the business of the particular farmers.

As a general rule, bankers do not consider that the liabilities shown in the balance sheet are at all over-stated or over-estimated, but with regard to the assets side it is the custom for them to consider the value of each asset rather from the viewpoint of a forced realization than from the standpoint of the value to an established concern, so that the prospective borrower should not capitalize any expenditure which is in any way a charge against the business without expecting the banker to totally disregard such amounts. Assets are classified according to their convertibility, commencing with the cash actually in hand or at the bank, and items representing assets which could easily be converted into cash, followed by book debts, stock-in-trade, plant and machinery, land and buildings, goodwill, etc. It is highly probable that the banker will deduct a certain percentage from each item on the assets side, and such percentage deductions will vary according to the nature of the particular asset and its estimated realizable value, and according to the nature of the trade and other equally important considerations, although in some instances the reserves included among the liabilities may be considered as sufficient in themselves to cover such a scaling down, apart, of course, from such an item as goodwill which will be absolutely ignored. The stock-in-trade should be priced at cost, providing the cost price is lower than the ruling market price, but if the market price is the lower the stock should be calculated on this basis throughout.

Business men of acknowledged ability and

character, earning good and consistent profits and whose financial affairs indicate a realizable surplus of assets over liabilities, after allowing for the customary banker's margins, will have little difficulty in obtaining short-term advances to the extent of one-quarter of the agreed surplus, providing the prevailing trade conditions warrant such a course, even if higher interest rates should be charged as compared with those charged in respect of advances made against good tangible security.

The trader desiring a bank overdraft should be quite frank and open as to his exact financial and commercial position, for if he fails to indulge in the confidence of the bank manager, the suspicion of the latter will most probably be excited, and tangible security to cover the overdraft will be stipulated.

Redemption of Loans.

With regard to advances in general, the banker usually fixes a limit to the drawings of his customers, on the understanding that he will honour cheques to the extent of such limit, while at the same time reserving the right to cancel the facility if circumstances at any time justify such a course. The general public conviction is that repayments of advances should be spread over a long period, but it should never be forgotten by the business man that if such repayments merely represented the principal of the loan, long term credits would distinctly be beneficial, but if the loans contracted from time to time exceed the sum to be repaid for the redemption of previous loans, the borrower becomes enslaved and the burden serious and cumulative. The borrowing of money or credit for profitable industry, or for the purchase of remunerative undertakings, is justifiable, even when the price is a little excessive, providing the returns are sufficient to meet the working expenses, upkeep costs, depreciation, and the redemption of the debt within a reasonable period of time.

Mortgage Repayment.

A mortgagee cannot call in or sell the mortgaged property until either the mortgage is not paid off at the end of three months of the date of notice, or the interest on the mortgage is at least two months overdue, providing always that there has been no breach of any provision of the mortgage deed. In the event of a mortgagee exercising his power of sale, he pays himself the sum due for principal and interest plus the costs of the sale, and must hand over any surplus to the mortgagor. The mortgagor is entitled to interest on the surplus from the date of the sale until it is paid over.

CHAPTER VII

BILLS OF EXCHANGE

THE use of actual cash is minimized in our complex industrial and commercial system by remittances in the form of bills of exchange which are exchanged and balanced by bankers and bill discounters.

What a Bill of Exchange is.

According to the Bills of Exchange Act of 1882, a bill of exchange is "an unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed, to pay on demand, or at a fixed or determinable future time, a sum certain in money, to or to the order of a specified person or to bearer." Bills of exchange are negotiable, but an instrument which does not comply with all the essential requirements in the above definition is not a negotiable instrument.

Use in Foreign Trade.

In the majority of cases, the liquidation of international indebtedness is effected by means of bills which perform much the same functions in international trade as do cheques in internal trade, changing hands freely, and by the use of which the double transmission of bullion or legal tender is avoided. The indebtedness of different countries to each other is never exactly the same in amount, and as bills are representative of goods and services, an adverse trade balance results in a lowering of the price at which bills are sold, owing to the shaking of confidence in the ability or willingness of traders to export goods.

If there were no banks in existence through which the money of different countries could be exchanged, exporters of goods would be compelled either to accept payment in foreign currency, and to afterwards sell this foreign currency for English money, or they would be obliged to insist upon payment in English money, which would compel the foreign importers to exchange their own currency for English money to pay for the goods. The inconvenience of doing this would, of course, be a very serious obstacle to the development of foreign trade, so that in practice payment is not made directly by the individuals themselves, but is effected in a most convenient manner by means of bills of exchange, drawn by those to whom money is due, and which change hands through the banks.

International trade is really barter, for no country in the long run can pay for its imports except by exporting goods. But, although sooner or later imports and exports will equalize each other, most countries over a given period, say one year, show either an excess of exports over imports, or an excess of imports over exports. If the imports of a country exceed the value of its

exports, the exchange moves against that country, and money payment is due, although this could be adjusted by the debtor country paying with amounts owing to it on balance from other countries, and if this cannot be done it is usual for the creditor country to lend money to the debtor country, by sending goods on credit, to be paid for at a future date.

Essentials of Bill.

The order contained in a bill of exchange is unconditional, and pre-supposes that the person to whom the order applies has sufficient available funds for transfer to the drawer of the bill, which should be so framed as to avoid giving the impression that it is simply a request for payment, as this would not be a bill of exchange. Instruments which do not in themselves carry validity are not negotiable, and bills drawn up subject to any contingency which may not arise, are not valid by reason of the uncertainty which is created, the chief object of any negotiable instrument being the certainty which entirely obviates the need for any investigation being made by a person taking one. Bills must be either written, printed, or typewritten, and must be signed by the drawer—the person giving the order to pay—for any document to which the signature of the drawer has not been affixed is of no effect whatever.

The drawer's signature can be that of an individual only, or a number of individuals, or the name of a firm, society, company, or corporation, and the law presumes that the drawer is the creditor of the drawee, so that if he merely acts as a representative of a society or company the capacity should be very clearly indicated on the bill, otherwise he will be personally liable for payment.

Drawers must have capacity to contract, a partnership drawing in the trade name, and a corporation drawing in the particular way authorized by its constitution, the corporate seal having the effect of a signature.

The chief essential requirements of a bill are the signatures of the parties, no special words being required to constitute a valid instrument. In the majority of cases the drawer writes out the order on a properly stamped paper, signing his name in the bottom right-hand corner, although in some instances the bill is actually drawn up by another person and sent to the drawer in order to be signed, for the signature may be inserted at any time after issue, although no liability attaches to a bill which the drawer refuses to sign.

The drawer usually directs payment by consulting his own convenience, and bills can be drawn up payable at so many months after date or sight, payable in London, the provinces, or at a bank named, or payable to the drawer, bearer, or a certain third party. In drafting a bill, the chief essentials which the drawer should bear in mind, are the date, the currency or term,

the contents, the parties, and the stamp. To guard against any alteration, the date should be written in the top right-hand corner of the draft, and the currency of the bill usually commences from the date so stated. An undated bill is valid, but the holder of it is justified in inserting a date and the bill is payable accordingly. The currency of a bill is the term or period between the stated date on which it is drawn and the date the amount is due. The contents consist of the amount, which should be shown in the top left-hand corner in figures, and in words in the body of the draft. The parties are the drawer, the drawee, and the payee, although the functions of the drawee and the payee are sometimes performed by the same person. The drawer usually drafts the bill and in any case legally gives the order; the drawee is the person to whom the order applies; and the payee is the individual, firm, or company to whom payment is to be made.

Issue of Bill.

The issue of a bill is defined in Section 2 of the Bills of Exchange Act as "the first delivery of a bill or note, complete in form, to a person who takes it as a holder," and Section 9 Sub-section 3 provides "where a bill is expressed to be payable with interest, unless the instrument otherwise provides, interest runs from the date of the bill, and if the bill is undated, from the issue thereof."

Delivery of Bill.

The delivery of a bill is the transfer of possession, actual or constructive, from one person to another, and it is laid down that—

(1) Every contract on a bill, whether it be the drawer's, the acceptor's, or an endorser's, is incomplete and revocable, until delivery of the instrument, in order to give effect thereto.

Provided that where an acceptance is written on a bill, and the drawee gives notice to or according to the directions of the person entitled to the bill that he has accepted it, the acceptance then becomes complete and irrevocable.

(2) As between immediate parties, and as regards a remote party other than a holder in due course, the delivery—

(a) in order to be effectual must be made either by or under the authority of the party drawing, accepting, or endorsing, as the case may be:

(b) may be shown to have been conditional or for a special purpose only, and not for the purpose of transferring the property in the bill.

But if the bill be in the hands of a holder in due course a valid delivery of the bill by all parties prior to him, so as to make them liable to him, is conclusively presumed.

(3) Where a bill is no longer in the possession of a party who has signed it as drawer, acceptor, or endorser, a valid and unconditional delivery by him is presumed until the contrary is proved.

Stamp Duty.

Most inland bills must be impressed with an *ad valorem* stamp duty, and there is a penalty for issuing unstamped bills, and the drawer should make himself acquainted with the scale of duties ruling at the time, and see that the stamp impressed

is sufficient according to the amount of the bill. A bill made payable "with interest" does not affect the stamp duty unless a definite sum is stated; and those drawn in the Channel Islands and the Isle of Man are foreign bills as far as the stamp duty is concerned. The words "value received" which it is customary to add to a bill, are intended to imply that consideration in the form of cash, goods, or services has been received.

Acceptance.

The trader assenting to the order of the drawer of a bill of exchange, accepts by writing his name across the face of the draft, together with the word "accepted," and thus undertakes to pay the stated sum at maturity. No acceptance is binding if given by any person other than the drawee, who may sign a blank stamped form. There are two kinds of acceptances—qualified acceptances and general acceptances, the former varying the effect of the bill as drawn, and the

latter assenting to the order without qualification. Thus, a bill may be accepted "on condition of renewal" "for £1,000 only," "payable at Barclays Bank only," etc., but the naming of the place of payment only without stating "and there only" is not a qualified but a general acceptance. The holder of a bill with a qualified acceptance can refuse it, and may treat it as dishonoured, and if he takes a qualified acceptance the acceptor and all subsequent parties are bound except those who have previously drawn and endorsed, unless they have presumably assented to it.

Payment of Bill.

A bill of exchange, unless it otherwise provides, is not payable in the United Kingdom until three days after its term. This was originally merely a matter of grace, but must now be added to the term before the legal due date is arrived at. It is necessary for the acceptor to inform his banker

Forms of Acceptance and Advice.

The following is a specimen *Bill of Exchange* after acceptance—

Bill Stamp Two Shillings	No. 74	£ 150 - 0 - 0	Due 21st April 1923. BIRMINGHAM 18th January, 1923. Three Months after date pay to <i>my</i> order One hundred and Fifty Pounds Payable at 1, Lombard Street, London E.C.4. Value received.
To MR. CHARLES RALPH, 14 High Street, Wolverhampton.			 Herbert Terry

The following is a specimen *Advice Slip*—

Acceptor.		Drawer.	Date.	Term.	Amount.		
Charles Ralph		Herbert Terry	1923. 18th Jan.	3 months	£ 150	s. -	d. -

To BARCLAYS BANK, LTD.

Please advise Lloyds Bank, Ltd., to honour the above acceptance, amount £150 0 0....., and charge the same to account of..... Charles Ralph.....

WOLVERHAMPTON, 21st April, 1923.

by means of an Advice Slip a few days before a bill becomes due, that the payee or payees will present it for payment, requesting him to honour same, and to charge the amount to the debit of the acceptor's account. If this is not done, the bill would probably be dishonoured in the absence of advice.

A bill is discharged or extinguished by cancellation, and it is then returned to the drawee or his banker.

With the exception of those drawn on demand or at sight, every bill must be presented either to the particular bank where it is payable or to the acceptor, on the last of the three days of grace, otherwise the liability of all parties excepting the acceptor would be at an end. If the last of the three days of grace is a Sunday, or is Christmas Day or Good Friday or a public fast or thanksgiving day, the bill is legally payable on the previous day, but if the last day of grace falls on a Bank Holiday, it is due on the next business day.

The drawer may be compelled to give a duplicate bill in the place of a bill lost before it is overdue, providing an ample indemnity is given against the claims of a possessor of the lost bill, and the loser should at once notify all parties liable of the loss, and an advertisement should preferably be given. The loss of a bill, however, necessitates that the person who has lost it should apply for payment to the drawer at its due date, giving notice of dishonour.

Average Due Date.

If a trader has accepted two or more bills in favour of the same individual, falling due at different dates, and desires to have the bills cancelled and to accept one new bill for the total amount, payable on the average due date, the latter can be ascertained in the following way—Take any convenient date as the standard, multiply the sum of each bill by the number of days from the standard date; add the results together, and divide this total by the total amount of the bills. The result will give the number of days that the average date is from the standard, and by adding the number to the standard, the average due date is ascertained. As an illustration, suppose the trader has had four bills drawn against him by the same person, payable at different dates, thus—

<i>Drawn</i>	<i>Amount</i>	<i>Due</i>
Jan. 27	£100	30th April
Feb. 12	£150	15th May
" 26	£200	29th May
" 28	£250	31st May

To ascertain the average due date upon which one amount of £700 is strictly payable, take the first due date of the separate transactions as the standard or starting-point, viz.—30th April, and set down the number of days of each bill's currency from the standard, thus—

	<i>Days</i>	<i>Amount</i>	<i>Product</i>
April 30 (Standard)	0	£100	= 0
May 15	15	£150	= 2,250
May 29	29	£200	= 5,800
May 31	31	£250	= 7,750
		£700	)15,800
			22 4/88

Divide 15,800 by 700 to arrive at 22 4/88, or 23 to the nearest day, the number of days which the average due date is from the standard (30th April). Thus 23rd May would be the average due date. In working this out fractions of £1 should be calculated to the nearest unit.

Overdue Bill.

A bill which has not been paid at maturity is overdue. The due date is shown on a bill payable at a certain future date, but a bill payable on demand is overdue if it has apparently been in circulation for an unreasonable period, and the question as to what is an unreasonable period depends entirely upon the particular circumstances governing each case. It is presumed that a bill twenty years old has been paid.

Foreign Bills.

The drafting of foreign bills differs from the drafting of inland bills, in that a set of bills are drafted consisting of two or, as is more often the case, three bills, the only variation being the words "first," "second," and "third," expressing the particular copy of the set. Any bill of exchange which is not drawn and payable in any part of the United Kingdom, the Channel Islands, or the Isle of Man, or which is not drawn in the British Islands upon a resident therein, is a foreign bill, and for purposes of stamp duty a bill drawn outside the United Kingdom is deemed to be a foreign bill.

The objects of drafting a set of foreign bills are to avoid loss, and in order that the first *via* may be sent to the foreign banker or agent to secure acceptance, while another draft of the set is circulated and sold. In this way the drawer or endorser is able to realize the amount of the bill while the first *via* is forwarding for acceptance. The particular *via* used or negotiated must be stamped with an adhesive stamp of the country where it is made payable, in addition to the impressed stamp of the country where it is drawn, and upon receipt of a foreign bill the British holder should affix and cancel a proper adhesive stamp, after presenting it for acceptance but before negotiating it.

It is much more convenient to show the amount in the currency of the particular country where it is payable, and for stamp purposes the rate of exchange ruling at the date of drawing the bill is the basis, but for payment purposes the rate of



Photo

A CORNER OF A BUSY OFFICE
International Motors, Ltd.)

Keateys, Ltd.

Frontispiece

exchange ruling at the date on which it is payable is the correct basis of calculation. The right of a person to sue in this country is unaffected by the absence of a foreign stamp on a foreign bill, providing it has been stamped according to English law.

The procedure with foreign bills is different from that with inland bills. The drawer of a foreign bill advises the drawee, and forwards a stamped copy to the payee, and also a second copy by a later mail, retaining the third until informed of the safe arrival of the others. The loss of the first two would necessitate the stamping and forwarding of the third. The term of a foreign bill made payable "after sight" commences from the date of acceptance by the drawee, and not from the date upon which it is drawn.

As the laws of different countries conflict with each other in certain material details, the following rules, set forth in Section 72 of the Bills of Exchange Act, should be observed—

"Where a bill drawn in one country is negotiated, accepted or payable in another, the rights, duties, and liabilities of the parties thereto are determined as follows—

(1) The validity of a bill as regards requisites in form is determined by the law of the place of issue, and the validity as regards requisites in form of the supervening contracts, such as acceptance or endorsement, or acceptance *supra protest*, is determined by the law of the place where such contract was made.

Provided that—

(a) Where a bill is issued out of the United Kingdom, it is not invalid by reason only that it is not stamped in accordance with the law of the place of issue :

(b) Where a bill, issued out of the United Kingdom, conforms, as regards requisites in form, to the law of the United Kingdom, it may, for the purpose of enforcing payment thereof, be treated as valid as between all persons who negotiate, hold, or become parties to it in the United Kingdom.

(2) Subject to the provisions of this Act, the interpretation of the drawing, endorsement, acceptance, or acceptance *supra protest* of a bill is determined by the law of the place where such contract is made. Provided that where an inland bill is endorsed in a foreign country, the endorsement shall, as regards the payer, be interpreted according to the law of the United Kingdom.

(3) The duties of the holder with respect to presentment for acceptance or payment and the necessity for or sufficiency of a protest or notice of dishonour, or otherwise, are determined by the law of the place where the act is done or the bill is dishonoured.

(4) Where a bill is drawn out of, but payable in, the United Kingdom, and the sum payable is not expressed in the currency of the United Kingdom, the amount shall, in the absence of some express stipulation, be calculated according to the rate of exchange for sight drafts at the place of payment on the day the bill is payable.

(5) Where a bill is drawn in one country and is payable in another, the due date thereof is determined according to the law of the place where it is payable."

Paying a Foreign Creditor.

A British importer can pay a foreign creditor in one of three ways. He can draw on one of his debtors resident in the same foreign town, drafting the bill payable to his creditor, or he can draw

cheques on a foreign bank by opening an account with a bank in the same town, or he may buy a foreign draft from a broker in exchange for a cheque, such draft being sent to the exporter payable at the foreign office of the broker in the currency of the particular country.

Bills Against Consignments.

The consignor of goods usually draws a bill on the consignee for the greater part, if not the whole, of the value of the goods, afterwards discounting the bill to obtain working capital during the period elapsing until the goods are actually sold and paid for. Such a bill is a documentary bill, and is drawn in a set of three *vias*. The invoice, bill of lading, insurance policy and letter of hypothecation are attached to the bill as the banker's security against non-payment. The bill and the documents are sent to the banker's agent, or to the branch of the bank in the town or district to which the goods are despatched, and if the credit of the consignee is known by the agent or banker at the other end to be good, the documents will generally be quite readily surrendered upon acceptance of the bill, otherwise immediate payment will be required, in which case a rebate is allowed in respect of the unexpired period of the bill's currency.

Increasing Working Capital.

A manufacturer or merchant may have a very considerable number of book debts owing to him, and at the same time be very short of working capital, but if he can arrange with debtors to liquidate their obligations by means of bills of exchange, the amount of working capital under his direct control will be proportionately increased by cashing some or all of the bills. Bills receivable may be dealt with by keeping them until they are due, or by transferring them through a banker or bill broker for cash, less a small discount.

With the expansion of banking and the continued development of the credit system as a whole, and the growth of importance of bills and drafts, loanable capital has become more and more a series of orders on the productive labour of the trading community, estimated in imaginary amounts of gold, and as this loanable capital increases, the security for the repayment of the principal and the payment of the interest is enhanced, and the rate of interest falls. In other words, the amount of capital on offer grows in a greater ratio than the development or the demand for it at the current rate for productive purposes.

Discounting a Bill.

The trader holding a properly accepted and valid bill of exchange, can discount it for immediate cash at a price less than its face value, as an alternative to awaiting the arrival of the due date,

and in so doing he loses all property in the bill, which is sold to the banker. As a matter of fact, the discounting of bills is the most common function of the majority of banks, bills being bought and sold in the same way as are ordinary exchangeable goods between traders. The customer who has discounted a bill with a banker will be charged a commission at once, whether the money is

charged interest upon the face value of a bill at the discount rate. As illustrating the difference between discount and interest, if a trader borrows £200 for one year, from his banker, at 5 per cent per annum, the banker would receive back £210, viz.: £200 principal and £10 interest, but if the trader discounts a bill for £200 at the same rate, receiving only £190, the banker would receive £10



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GENERAL OFFICE OF A BANK
showing mahogany standing desks with steel roller shutter pedestals

withdrawn or not, but this charge is not based on the accepted principle of true discount, but varies according to the fluctuations in the market rate of discount (which in turn varies with any alteration in the Bank of England official minimum), and according to the precise nature of the bill, being higher if there are any doubts regarding the solvency of any of the parties.

Discount Calculations.

Discount calculations are not based upon the principle of true discount, the seller of a bill being

interested on £190, or $5\frac{5}{9}$ per cent, as compared with 5 per cent in the former case.

A perusal of the table on page 731 will show the trader the difference per cent in the profit on the basis of interest, and on the basis of discount, calculated to the nearest decimal point.

Dishonoured Bills.

If the drawee does not accept a bill drawn on him, or if the acceptor fails to meet it at its due date, the bill is said to be dishonoured, and the trader should place the returned bill in the hands

of a Notary Public, who will demand acceptance or payment. The damages on dishonour consist of the amount of the bill, interest from the date of presentment or maturity, according to whether the bill is payable on demand or not, and noting expenses. Very often a new bill is accepted in place of a former one which the acceptor did not honour. In such cases, the drawer is entitled to charge the acceptor with the new bill stamp, together with interest for the extended period.

Bills are sometimes retired by an acceptor before they are due, for the purpose of gaining rebate. The difference between the amount for which unmatured discounted bills on hand might be

DISCOUNT CALCULATIONS

INTEREST %	DISCOUNT %	DIFFERENCE %
1	1-0	—
2	2-0	—
3	3-1	—
4	4-2	·1 or $\frac{1}{10}$
5	5-3	·2 or $\frac{2}{10}$
6	6-4	·3 or $\frac{3}{10}$
7	7-5	·4 or $\frac{4}{10}$
8	8-7	·5 or $\frac{5}{10}$
9	9-9	·7 or $\frac{7}{10}$
10	11-1	·9 or $\frac{9}{10}$
20	25-0	5
30	42-9	12-9 or $12\frac{9}{10}$
40	66-7	26-7 or $26\frac{7}{10}$
50	100-0	50
60	150-0	90
70	233-0	163
80	400-0	320
90	900-0	810
100	Infinite	—

discounted, and their face value, is designated "Rebate on Bills Discounted," and is included among the liabilities in the balance sheet of banks.

Lost Bills.

Section 69 of the Bills of Exchange Act states that "where a bill has been lost before it is overdue, the person who was the holder of it may apply to the drawer to give him another bill of the same tenor, giving security to the drawer if required to indemnify him against all persons whatever in case the bill alleged to have been lost shall be found again. If the drawer on request as aforesaid refuses to give such duplicate bill he may be compelled to do so." A part of Section 51 provides "where a bill is lost or destroyed, or is wrongly detained from the person entitled to hold it, protest may be made on a copy or written particulars thereof."

It follows, therefore, that the true owner of a lost bill is not necessarily a loser at all, as is invariably the case with a bank note, but other parties must be indemnified against the original document being presented.

Mutilated Bill.

The banker must obtain the acceptor's confirmation in the case of a bill which has been cut or torn in a manner suggesting cancellation. Unless he is notified of a good reason for cutting a bill into two parts, no banker would pay it.

Alteration of Bills.

All alterations in a bill of exchange must be signed or initialed by all the parties liable, and Section 64 of the Bills of Exchange Act provides that—

(1) Where a bill of acceptance is materially altered without the assent of all parties liable on the bill, the bill is avoided except as against a party who has himself made, authorized, or assented to the alteration, and subsequent endorser—

Provided that,

Where a bill has been materially altered, but the alteration is not apparent, and the bill is in the hands of a holder in due course, such holder may avail himself of the bill as if it had not been altered, and may enforce payment of it according to its original tenor.

(2) In particular the following alterations are material, namely, any alteration of the date, the sum payable, the time of payment, the place of payment, and where a bill has been accepted generally, the addition of a place of payment without the acceptor's assent.

Cancellation of Bill.

The deliberate cancellation of a bill discharges the parties, and Section 63 of the Bills of Exchange Act provides—

(1) Where a bill is intentionally cancelled by the holder or his agent, and the cancellation is apparent thereon, the bill is discharged.

(2) In like manner any party liable on a bill may be discharged by the intentional cancellation of his signature by the holder or his agent. In such case any endorser who would have had a right of recourse against the party whose signature is cancelled, is also discharged.

(3) A cancellation made unintentionally, or under a mistake, or without the authority of the holder, is inoperative; but where a bill or any signature thereon appears to have been cancelled, the burden of proof lies on the party who alleges that the cancellation was made unintentionally, or under a mistake, or without authority.

If a bill is cancelled by mistake, the words "cancelled in error" should be written on the bill near to the cancellation, the banker initialing or signing same. The signature of the acceptor on a paid bill is cancelled.

Documentary Bills.

Bills which are accompanied by documents, such as bills of lading, invoices, insurance policies, etc., are called documentary bills, and the documents are available for the satisfaction of the amount in the event of dishonour.

The documents attached to a bill serve as an additional guarantee to the holder, in that the existence of the documents proves the object of the draft to be a serious operation, and that they act as a security for the shipments. A documentary bill, in operation, works in the following manner: A British exporter sells or consigns a number of motor vehicles to a firm at Valparaiso,

and drafts on the South American importer at so many days after sight, negotiating this with his bankers at Birmingham. In order to obtain more favourable terms in the matter of discount, the exporter pledges the goods and attaches the bills of lading, insurance policy, and the invoice, to the draft. The bills of lading will be made out "to order" and endorsed to the order of the banker, and the insurance policy will be made out "to order" or "to bearer." After the shipping documents and the draft have been endorsed, they are forwarded by the Birmingham bank to their agents at Valparaiso, who will get the draft accepted, the pledge of the goods being transmitted.

In some instances, shippers employ agents to collect sums due against shipments of merchandise, but the bills of exchange system is more generally used, being much more convenient and reliable.

In discounting a documentary bill, a banker takes a memorandum of deposit or a note of hypothecation from his customer, and the goods and bill of lading are in consequence pledged, giving the banker the right to sell the goods if this should be necessary. The required stamp duty on a memorandum of deposit or note of hypothecation is sixpence. A banker selling a documentary bill endorses it and becomes liable.

Accommodation Bills.

Accommodation bills, or "kites," are those which are drawn, accepted, and endorsed, without any consideration having been given for them, and are usually issued for the purpose of being discounted to accommodate one or more of the parties concerned who agree to provide the acceptor with the funds necessary to meet the bill at maturity.

Bank Bills.

Bills issued or accepted by banks are referred to as bank bills, the discount rates for which are less than the ruling rates for trade bills.

Drafts.

A bill of exchange payable on demand or after date or sight is referred to as a draft, as also are cheques, although the word is more generally used when referring to a banker's draft, drawn by one banker upon another banker. A trader requesting his banker to provide him with a draft should either make out a cheque or affix a stamp to the form of application. The amount of the draft will, of course, be debited to the trader's account.

In remitting money from one country to another, or from one part of the United Kingdom to another, the trader can buy a bank draft from his

banker, and this method is a very effective safeguard against fraud.

Endorsements.

If the acceptance of a bill by a certain person is considered to be insufficient, the drawer can insist upon another person endorsing or backing the bill, such endorser thereby making himself liable in case of dishonour. In the event of the back of a bill being already filled with endorsements, additional signatures may be written on a slip of paper, similar in size and shape to the bill, and called an allonge, which should be attached to the bill before it is endorsed. The first endorser on an allonge should take care to ensure that his name appears partly on the bill and partly on the allonge, so that the latter cannot easily be detached and attached to any other bill.

The holder of a bill is the person in actual or constructive possession of it, and he is legally entitled to recover its contents, but if he accepts a composition all the other parties are at once discharged from their obligations, although the acceptance of a part payment has no such effect.

Application of Contract Law.

As a bill of exchange is one kind of contract, the law of contracts is applicable, the general rule of which, as laid down, is that capacity to incur liability as a party to a bill is co-extensive with capacity to contract.

An infant cannot be personally liable upon any bill of exchange, but if an adult accepts a bill, the date of which is a date prior to his twenty-first birthday, he is personally liable. Where a bill is drawn or endorsed by an infant, minor, or corporation having no capacity or power to incur liability on a bill, the drawing or endorsement entitles the holder to receive payment, and to enforce it against any other party. A married woman can draw, accept, or endorse a bill, and be liable upon it. A trading corporation has capacity to incur liabilities upon bills, but in the case of a corporation formed for any purpose other than that of trading, the capacity to incur liability must be definitely given. Contracts entered into by a lunatic can be rendered void. The authority of agents to draw, accept, or endorse a bill depends upon the general law of agency, and the authority of partners depends upon the general law of partnership.

If a bill is drawn, accepted, or endorsed in an assumed name, and the identity of the person is clearly established, the same liability is incurred as would have been incurred had the signature been made in the correct name.

SECTION 33

Income Tax

By J. E. DURHAM, A.C.I.S., A.L.A.A.

CHAPTER I

INTRODUCTORY

ALL business is entered into with a view to profit, and when, after a hard struggle, a reasonable profit has accrued to the trader, he is faced with the fact that all the profits are not his to do what he likes with, but that he must pay a proportion to the revenue of the country in return for certain services rendered by the State. In many cases, through lack of knowledge, the trader pays more than he is liable to pay, so in this section the taxpayer's rights will be explained.

History of Tax.

Income tax is a charge of a certain amount in the pound levied on incomes of over £135 per annum. The charge was first made by Mr. Pitt in 1798, as a war tax; it was withdrawn in 1816 and reimposed by Sir Robert Peel in 1842. From this time to 1907 it was considered as a temporary form of taxation, but since 1907 it has become a part of the permanent revenue of the country.

Persons Liable to Tax.

The persons liable to income tax are: all persons resident in the United Kingdom, whether subjects of His Majesty or not; if not resident in the United Kingdom then in so far as they derive income from property, profession, trade, employment or vocation in the United Kingdom.

Administration.

The regulations for the assessment and collection of the tax are contained in the Income Tax Act, 1918, together with the Finance Acts, 1918 to 1923.

The administration of the Acts is controlled by the Treasury which exercises general authority. The Board of Inland Revenue is responsible for the direction of the work and the putting into operation of the provisions of the various Acts.

The district commissioners (unpaid), who are usually gentlemen of certain property qualifications, have authority to settle differences between the taxpayer and the Revenue. Additional commissioners, who are usually but not necessarily, elected from the district commissioners, decide the assessments after consultation with the Inspector and Assessor of Taxes.

Special commissioners are paid officials of the Revenue; their duty is to assess taxpayers who wish to be assessed by them (this is where a taxpayer does not wish to be assessed by the district commissioners, some of whom may be trade competitors). They hear appeals against their own assessments and those of the district commissioners: they are also responsible for the assessment of interest and dividends from public funds, of railway companies under Schedule A, and act in relation to super-tax.

The assessors, who are paid officials, issue the familiar forms requesting a return on income within 21 days, and finally are responsible for the collection of the tax due. The inspector is the person with whom the taxpayer deals. He examines the returns and assessments and may amend them before passing them to the commissioners.

If a taxpayer is dissatisfied with an assessment, an appeal should be made within 21 days of the date of the assessment but enquiries and appeals should be sent to the inspector and not to the assessor of taxes.

Usually, however, if the taxpayer has a good case and can support it by accounts, the matter may be settled satisfactorily at an interview with the inspector, who is not out to bleed the taxpayer dry as is very often thought.

Year of Assessment.

The year of assessment is from 6th April to 5th April of the following year.

Notices are posted on the notice-boards of churches intimating that returns are to be made, and it is the duty of every person whose income is over £135 to make a return whether he is requested to do so or not, and if a person is served with a form he must make a return, even though his income is below the required limit.

Schedules of Income.

Income tax is assessed under five schedules: A, B, C, D, and E.

Schedule A covers the assessment of profits arising from the ownership of lands and buildings, in the United Kingdom, the profits of railway, gas, water, canal, and dock companies, and quarries and mines.

Schedule B covers the profits arising from the

occupation as distinct from the ownership of lands; where the land is used for the purpose of husbandry only the taxpayer may claim to be assessed under Schedule D.

Schedule C refers to the income arising from interest and dividends payable from public funds.

Schedule D embraces the profits from trade, profession, manufacture or vocation, and is the net for catching all income not covered by the other schedules.

Schedule E refers to the profits arising from salaries paid by the Government, public bodies, companies, and private firms.

Method of Taxation.

As far as possible the method adopted is to tax the income at its source, the person finally suffering the deduction being able to claim repayment if he is not liable to tax.

EXAMPLE. A householder is charged with income tax on the value of the premises in which he resides; he pays the tax and is entitled to deduct the amount from the next payment of rent to the landlord, who is bound to allow it, as it is the landlord's income which is being taxed—

	£	s.	d.
Rent payable by tenant . . .	100	—	—
Less tax paid by tenant . . .	22	10	—
Amount received by landlord . .	£77	10	—

which is equivalent to the landlord receiving £100 in full and then paying £22 10s. by way of tax.

If the landlord's income does not render him liable to tax he may claim repayment of the £22 10s. paid.

Similarly a person occupies his own house and pays a ground rent of £20 a year; when paying the ground rent he deducts tax at 4s. 6d. in the £, which he pays over to the Revenue; the ground landlord thus receives £15 10s. clear and the Revenue £4 10s., which is equivalent to his receiving £20 in full and then paying his own tax.

Again, a limited company pays tax on the whole of its profits as a company, but when the profits are distributed in the form of dividend, tax is deducted so that the shareholders receive 15s. 6d. in the pound clear which is equal to 20s. less tax at 4s. 6d.

CHAPTER II

RATES OF TAX AND ALLOWANCES

BEFORE 1920/21 the rate of tax charged was calculated according to the total income of the taxpayer, a lower rate being charged for earned income than for unearned. This was altered by the Finance Act, 1920, and the method now is to charge the first £225 of a person's taxable income

at 2s. 3d. in the £ and the balance at 4s. 6d. in the £. The reader will naturally ask what is a person's taxable income, so this will now be explained. The total income is composed of earned income and investment income (the distinction being explained below), and from the earned portion an allowance of 10 per cent is made: this allowance, however, may not exceed £200, so that a person with an earned income of £3,000 is only allowed £200, exactly the same as the one whose income is £2,000. The amount thus obtained (the earned income less 10 per cent plus the investment income) is termed the assessable income. The allowances enumerated below are then deducted from the assessable income and the final amount is termed the taxable income, which is charged as 2s. 3d. in the £ on the first £225 and at 4s. 6d. in the £ on the balance.

It should be noted in passing that the allowances are not granted automatically, the taxpayer having to make a claim, space for which is provided on the forms of return under Schedules D and E (pp. 3 and 4).

Earned Income.

Under the heading of earned income are included—

Salaries, wages, pensions (but war pensions, etc., are not chargeable).

Superannuation allowances, deferred pay, compensation for loss of office paid in respect of past services, even though the individual has not made contributions towards such pension.

Profits arising from business under Schedule D, including interest on partners' capital but not in the case of a sleeping partner.

It should be noted that whilst the profits of a partnership are treated as earned income, the profits of a limited company are considered investment income.

Profits from farming under Schedule B.

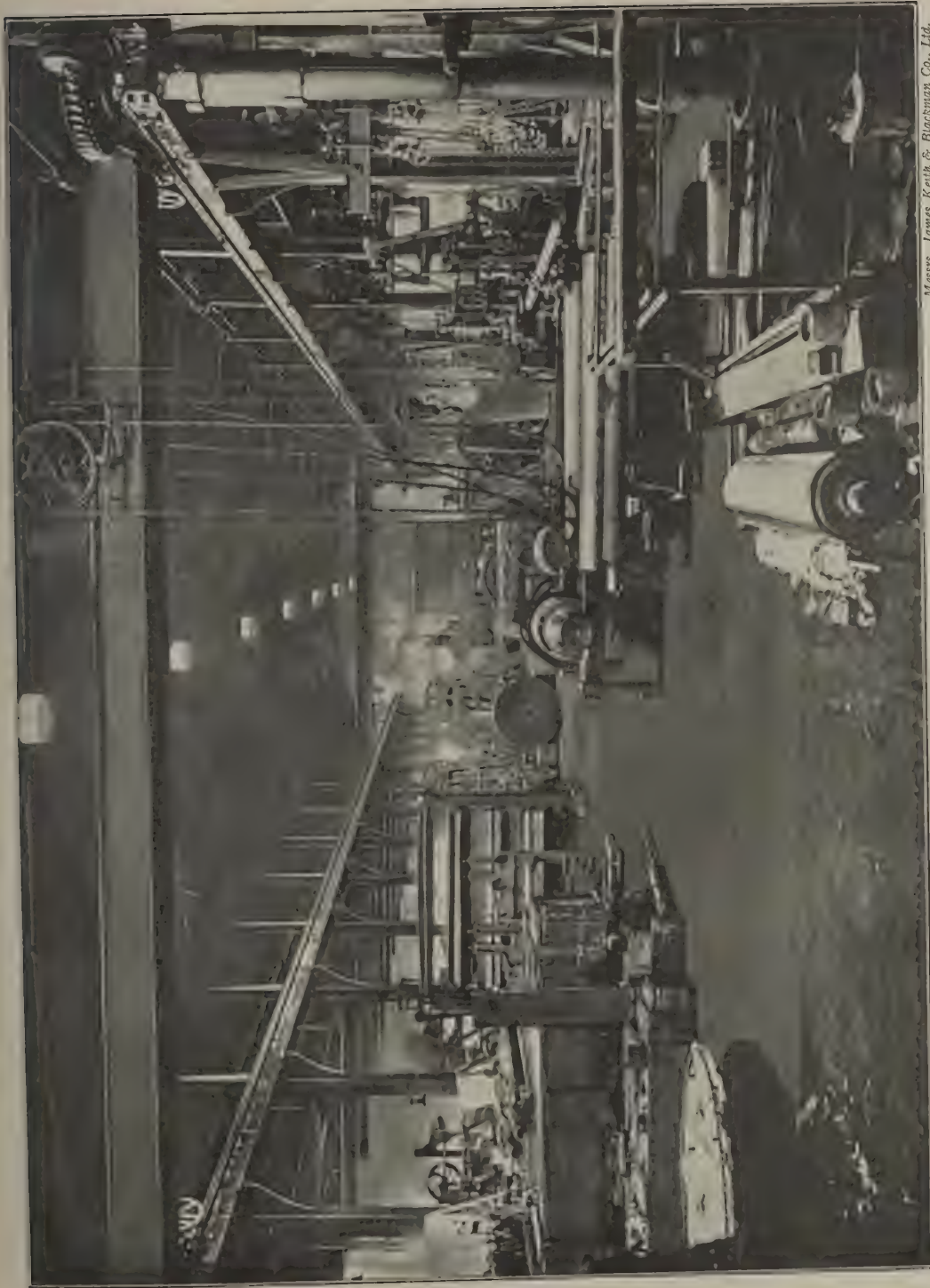
Income from property which forms part of the salary of the taxpayer; for instance, in the case of a clergyman or a person who occupies a house by virtue of his position and who accordingly receives a smaller salary.

Directors' fees.

Personal Allowance.

A person is entitled to an allowance of £135 if single, but if he has a wife living with him during the year of assessment (not necessarily the whole year) he is entitled to a wife's allowance of £90; in addition if the wife has an earned income an extra allowance is made of nine-tenths of such income up to £50, that is, the extra allowance may not exceed £45.

EXAMPLE 1. Alice Brown, spinster, has an earned income of £200 a year and on the 6th



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A LARGE ENGINEERING WORKS
Showing equipment of "Keith Lights"

Messrs. James Keith & Blackman Co., Ltd.

October, 1923, marries John Jones, who has an earned income of £500 and an investment income of £100—

<i>Alice Brown</i>		<i>John Jones</i>	
	£		£
Earned income (6 months)	100	Earned income . . .	500
Less 10% . . .	10	Less 10% . . .	50
Assessable income . . .	90	Investment income . . .	100
Personal allowance . . .	135	Assessable income . . .	450
Taxable income . . .	Nil	Personal allowance . . .	£135
		Wife's allowance . . .	90
			225
		Taxable income . . .	£325

£225 is charged at 2s. 3d. in the £ and £100 at 4s. 6d. in the £. Miss Brown is not liable to tax, although Mr. Jones obtains the full allowance of £90 for his wife.

It will be noticed that an earned income of £250 is equivalent to an investment income of £225, and a married man with such an income would be exempt from tax, as would a single person with an income of £135.

EXAMPLE 2. John Smith who has an earned income of £600 and an investment income of £300 dies on the 5th October, 1923—

<i>John Smith</i>		<i>Annie Smith</i>	
	£		£
Earned income (6 months)	300	Investment income (6 mos.)	150
Less 10% . . .	30	Personal allowance . . .	135
	270	Taxable income . . .	£15
Investment income . . .	150		
Assessable income . . .	420		
Personal allowance . . .	£135		
Wife's allowance . . .	90		
	225		
Taxable income . . .	£195		

Mr. Smith's executors will be called upon to pay tax at 2s. 3d. in the £ on £195, but if tax had been deducted at 4s. 6d. in the £ on £300 the position would be—

Tax deducted—	£	s.	d.	£	s.	d.
4s. 6d. in £ on £300 . . .				67	10	—
Tax payable—						
Executors of J. Smith :						
£195 @ 2s. 3d.	21	18	9			
Mrs. Smith : £15 @ 2s. 3d.	1	13	9			
				23	12	6
Tax to be repaid				£43	17	6

£11 16s. 3d. is due to the estate of the late Mr. Smith and the balance of £32 1s. 3d. to Mrs. Smith.

EXAMPLE 3. William Thompson, grocer, shows an average profit of £700 after paying his wife £80 a year for her assistance in the shop. In this case the £80 is added to the £700 so that the combined income is £780—

Total income	£780
Less 10% allowance	78
	702
Husband and wife allowances . . .	£225
Wife's extra allowance : $50 \times \frac{1}{10}$. . .	45
	270
	£432

which is chargeable, £225 at 2s. 3d. in the £ and £207 at 4s. 6d. in the £.

It will be seen that in this way £50 of the £80 paid to Mrs. Thompson is not subject to tax, as 10 per cent has been deducted from the £80 and 90 per cent of £50 as an extra allowance. Of course, the £80 must be for genuine assistance rendered, not merely a payment on paper.

Children.

An allowance is made in respect of the children or adopted children of the taxpayer who are under the age of 16, or over 16 if they are receiving full-time instruction at school or college; this allowance is not granted if the child has an annual income exceeding £40 (exclusive of the value of any scholarship). The allowance granted is £36 ($£40 - \frac{1}{10}$) for the first child and £27 ($£30 - \frac{1}{10}$) for each of the subsequent children. If a child is born on 1st July, 1922, the allowance will not be made during 1922/23 but from 1923/24 onwards. Where a single person maintains his brothers or sisters under the age of 16 (or over 16 if attending school) he may claim an allowance (£36 or £27) in respect of each one.

EXAMPLE 1. S. Williams has a salary of £400. His wife is living and he has four children—two, ages 12 and 14, at school, one age 15 at work, and one age 17 at school—

Earned income	£400
Less 10% allowance	40
Assessable income	360
Husband and wife allices. . .	£225
Children's allices. : $36 +$	
$27 + 27$	90
	315

Taxable income £45 @ 2s. 3d. in the £

The allowance is granted for the boy of 17 but not for the one aged 15, who is assumed to be earning more than £40 a year.

EXAMPLE 2. T. Smith, a single man, with a salary of £300, maintains three brothers and sisters under 16 and one brother over 16 who is still at school—

Earned income	£300
Less 10% allowance	30
Assessable income	270
Personal allowance	£135
Extra allowance	117
	252
Taxable income	£18 @ 2s. 3d. in the £

Housekeeper.

An allowance of £45 is made: (a) to a widower who has a female relative or other female person residing with and maintained by him for the purpose of looking after his children (this applies equally in the case of a widow); (b) to a single man or woman who has his or her widowed mother or other female person living with him or her for the purpose of looking after the brothers or sisters under the age of 16.

Dependent Relatives.

An allowance of £25 is made in the following cases, but the person in respect of whom the allowance is made must not have an income exceeding £50 a year—

(a) Dependent relatives of the taxpayer or his wife, where they are, owing to old age or infirmity, unable to maintain themselves, but in the case of a widowed mother incapacity or infirmity need not be present.

(b) Where a person owing to old age or infirmity is compelled to keep a daughter at home to look after him, but in this instance the income limit of £50 does not operate.

If the cost of maintenance is shared the allowance will be apportioned.

EXAMPLE—

(1)	£	(2)	£	£
Assessable income (£600		Assessable income (£500		
— 60)	540	— 50)		450
Personal allowance	135	Personal allowance	135	
Wife's allowance	90	Female relative allow-		
Children's allowance (3)	90	ance	45	
Mother	25	Children's allowance (2)	63	
	340		243	
Taxable income	£200	Taxable income	£207	
Chargeable @ 2s. 3d. in the £		Chargeable @ 2s. 3d. in the £		

The allowances mentioned above are deducted from the assessable income of the taxpayer.

Life Assurance Premiums.

An allowance is made on account of premiums paid in respect of a life assurance or a deferred annuity on the life of the taxpayer or of his wife, but not children. First of all the premium must be paid to a company having an office in the United Kingdom and carrying on business here; the total premiums paid may not exceed one-sixth of the taxpayer's total income nor in the case of any one policy exceed 7 per cent of the sum assured at death. For example, a premium of £80 is paid in respect of an endowment policy for £1,000, but as 7 per cent of this sum is £70, this amount only would be allowed, not £80. On policies taken out on or after 22nd June, 1916, where there is no sum assured at death no allowance is made, but before that date the allowance was limited to a total premium of £100 in such cases. For example, if the deferred annuity premiums were: 1912, £90; 1914, £100; 1917, £50; for the

income tax year 1923/24, only £100 (not £190) would be allowed in the first two cases, but no allowance would be made for the policy taken out in 1917.

The rate of tax allowed in respect of policies taken out after 22nd June, 1916, may not exceed 2s. 3d. in the £ and on policies dated 22nd June, 1916, or before, the rate is 2s. 3d. where the total income does not exceed £1,000; 3s. 4½d., £1,001 to £2,000; and 4s. 6d. where the income is more than £2,000, but in cases where the income is slightly below the stated limit the larger rate will be granted on the taxpayer paying to the Revenue tax at 4s. 6d. in the £ on the difference income. For example, a person whose total income is £990 pays premium of £100 and is allowed tax at 2s. 3d. = £11 5s., but by paying tax at 4s. 6d. in the £ on £10 (£1,000 - £990) = £2 5s., he is entitled to the rate of 3s. 4½d. in the £ on £100 = £16 17s. 6d., showing a saving of £3 7s. 6d. in tax; this applies only to policies taken out on or before 22nd June, 1916.

For this purpose registered friendly societies are considered the same as insurance companies.

Where a policy covers sickness, accident or death the portion of the premium applicable to death only is allowed and a certificate as to the amount is required.

Where a firm has an approved pension or super-annuation scheme for its staff, payments made by the firm are allowed as expenses and contributions made by the staff are allowed as expenses against the salary or wages of the person contributing. Where, under employment by the State, contributions to pension, etc., are compulsorily made, the amount is deducted from the salary and may be treated as expenses by the contributor.

Obviously, if for any reason contributions are repaid, tax must be paid on such amount, as tax was allowed when the contributions were made.

Of course, no tax is payable on the sum, including any bonus due, which is payable when the policy matures; the same applies when a lump sum payment is made in lieu of a pension.

EXAMPLE. J. Jones, whose total income is £2,500, pays the following premiums—

1. Endowment policy for £1,000 dated 1914, premium £80.

2. Whole life policy for £2,000 dated 1912, premium £70.

3. Endowment policy for £5,000 dated 1917, premium £200.

1. The allowance is limited to 7 per cent of the sum assured—£70—tax at 4s. 6d. in the £.

2. Seeing this policy was taken out before 22nd June, 1916, tax at 4s. 6d. in the £ on £70 is allowed as the total income exceeds £2,000.

3. Tax at 2s. 3d. in the £ on £200 is allowed as the policy is dated 1917. The total premiums allowed—£340—is less than one-sixth of the total income of £2,500.

The tax allowed for insurance premiums is deducted from the total tax which a person is liable to pay after all family allowances have been made.

Non-residents and Allowances.

The allowances previously explained are in the ordinary granted only to residents in the United Kingdom, but exceptions are made in the case of any person who is or has been employed in the service of the Crown, persons in the service of any missionary society abroad, or in the service of any of the native states under the protection of the British Crown, persons resident in the Isle of Man or the Channel Islands, any person formerly resident in the United Kingdom and now residing abroad for the sake of health, or any widow receiving a pension and whose late husband was employed by the Crown. In such a case the allowance is limited so that the person pays the same proportion of the tax calculated on the total income as the British income bears to the total income.

EXAMPLE. W. Thompson is living abroad for the sake of his health; his income (all investment) is £1,050—

	£	s.	d.		£	s.	d.
British income	700	—	—	Tax on total income—			
Foreign income	350	—	—	£225 @ 2s. 3d.	25	6	3
				£600 @ 4s. 6d.	135	—	—
Total income	1,050	—	—				
Husband and wife allowances	225	—	—				
Taxable income	£825	—	—		£160	6	3

First of all the tax is calculated on the whole income, as though the foreign as well as the British income were subject to tax. The proportion of the British to the total income is then obtained and the tax worked out in the same proportion. In this case the British income is two-thirds of the total income, so that he may not pay less than two-thirds of the total tax (£160 6s. 3d.) which works out at £106 17s. 6d. (not tax on £700 less the allowances of £225 = £81 11s. 3d.).

CHAPTER III

SCHEDULE A (INCOME FROM PROPERTY)

THE tax payable under this schedule is often referred to as the Landlord's or Property Tax, as it is a tax on the income arising from the ownership of lands and buildings in the United Kingdom. It affects persons in all walks of life, so it will be dealt with in detail.

Certain profits, such as those of mines, quarries, gas works, ironworks, railway, dock and canal

companies, and markets, are assessed under Schedule A, but according to the rules of Schedule D, so they will be treated at a later stage.

Assessments.

Assessments on property are usually reconsidered every five years, and this is termed the quinquennial valuation. The last valuation in the County of London was made in 1920, and in other districts in 1910, but in the latter instance forms are now being issued for the purpose of a revaluation for the year 1923/24. The assessment is usually made upon the tenant of the property, but in the following cases it is made upon the owner—

(a) A dwelling-house of less than £10 annual value.

(b) Lands and tenements let for a less period than one year.

(c) House or building let in different apartments.

In all cases the landlord, by giving notice before 31st July in any year, may have the assessment made upon him instead of the tenant, but in such a case the landlord must pay on demand or application for payment of tax may be made to the tenant. Such requests are often made where the landlord owns a number of small properties.

If a house or a building is unoccupied for a portion of the year no tax is payable for such portion.

In the London Metropolitan area the Schedule A assessment follows that in operation for poor rate purposes and this usually but not always obtains outside London.

The gross annual value is the rent the property will fetch in the open market, the landlord being responsible for all repairs and the tenant for rates; factors in arriving at the rent would be the cost of land and erection of the premises, situation and demand for the particular type of premises.

If the rent has been fixed by agreement within seven years of the assessment, such rent is taken as the basis, if the provisions as to repairs and rates are as above.

Of course there are cases where property is not let at a true rental value; e.g. a father might let to a son premises worth £60 a year for £40 a year, but in this case the gross annual value would be £60 not £40; again, premises worth £500 a year are let for £450, one of the conditions being that the tenant keeps the premises in repair, and in this instance £500 would be the gross annual value.

Another instance is that of a tenant of a tied public-house, who obtains the premises at a lower rental on condition that he buys his beer from a certain brewer, who is the owner of the premises; in such cases the brewer does not allow the same discount as he does to other purchasers.

A person obtains a lease of premises at a lower rental by paying a premium; the amount of the premium would be reduced to terms of rent by dividing the premium by the number of the years of the lease, provided* that the new rental obtained in this way is not less than the premises are worth. Again, premises worth £200 are purchased and extensive alterations made: a re-assessment would be made on the basis of the rent the improved premises are worth.

The two sets of premises are assessed separately, say, at £180 and £200. From the 6th April following the structural alteration, the assessment would be made in one and probably be increased to £400; this re-assessment is made at what is termed a supplementary re-valuation. A public notice is posted to the effect that the valuation list is open for inspection, and the owner is then given an opportunity of appealing against the assessment.



Photo

Kealeys, Ltd.

A CORRESPONDENCE OFFICE
(Haughton's Patent Metallic Packing Co., Ltd.)

An assessment made at a quinquennial valuation may not be increased before the next period unless structural alterations have been made to the premises, but on the other hand an owner may appeal for a reduction at any time.

For example, premises let for £100 a year are valued at this amount in London in 1920; they are re-let in 1922 for £120, but the assessment would remain at £100 until 1925 when it would be increased to £120.

Again, a person owns two shops with a passage between the two; he decides that it will be more advantageous to have the two connected so arranges to have the work carried out by means of a covered way.

Repairs.

An owner receives, say, £120 as rent of premises but out of this he has to do repairs so that in the end he receives a smaller sum than £120. Naturally he thinks that he should not pay tax on the full £120, so to make allowance for this the law fixes a proportion of the gross value to cover the cost of repairs and maintenance of the property; if the actual cost is less than the amount allowed so much the better for the owner.

Until 5th April, 1923, the allowance for repairs, etc., of buildings was one-sixth of the gross value. After this date the allowances are one-fourth where the gross value does not exceed £40, one-fifth

between £40 and £100 (but the one-fifth may not be less than £10, which is equal to one-fourth of £40). Where the assessment exceeds £100, the allowance is £20 plus one-sixth of the amount by which the assessment exceeds £100, so that for an assessment of £130 the allowance for repairs would be £20 plus one-sixth of £30 (£5) total £25. The allowance in respect of lands (including farm-houses and farm buildings) is one-eighth.

If the owner proves that the actual cost of repairs, insurance, maintenance and management, on the average of the previous five years, has exceeded the allowances, stated above, he may claim repayment of tax on the excess cost of repairs, etc. (Claim within six years.)

EXAMPLES—

1. House property : rent £45—

Gross assessment	£	45
Allowance for repairs, $\frac{1}{8}$	10	(not £9)
Net assessment	£	35

2. House property : rent £32—

Gross Assessment	£	32
Allowance for repairs, $\frac{1}{8}$	8	
Net assessment	£	24

In this case the average cost of repairs was £10, so that tax on £2 may be reclaimed.

3. Farm-house and farm buildings : rent £120—

Gross assessment	£	120
Less $\frac{1}{8}$ for repairs	15	
Net assessment	£	105

Small property is very often let at an inclusive rental so the assessment would be arrived at as follows—

Rent @ 15s. per week	£	39
Less rates	14	
Gross assessment	£	25
Less $\frac{1}{8}$ for repairs	6 5 0	
Net assessment	£	18 15 0

Property is often let at a reduced rental on the condition that the tenant does all repairs. In this case no allowance would be made to the landlord, so he would be assessed on the clear rent he receives.

On property let in this way for £60 a year, the landlord would pay tax on the £60 as he receives this as clear rent.

Where the assessment is made upon the tenant he pays the tax and the landlord is bound to allow the deduction of the amount from the next payment of rent, the rate of tax payable being : 6th October, 1922 to 5th April, 1923, at 5s., and 6th April, 1923 to 5th October, 1923, 4s. 6d. ; tax is paid in two instalments so that tax paid in

July, 1923, covers the period October, 1922 to April, 1923, and would be deducted from the rent paid in September, 1923, at 5s. (not 4s. 6d.) in the £. Similarly, if a six-months' ground rent is payable on the 30th June, 1923, tax is deducted : three months at 5s. and three months at 4s. 6d. In this case, although tax is deducted in June, the tax in respect of the period—January to March—is paid on 1st July and that for April to June is paid the following January, so that the deduction takes place before the payment of the tax to the Revenue.

The point to be noted is that it is the person in receipt of the income who suffers the tax—not the tenant.

EXAMPLE. A owns a house worth £60 a year, out of which he pays a ground rent of £8 to B, the house being let to C—

Gross assessment	£	60
Less $\frac{1}{8}$ for repairs	12	
Net assessment	£	48
Ground rent	£	8
A's net income	£	40

The tenant pays tax on £48—and deducts the amount from his next rent, so he does not suffer personally. The owner deducts tax from the £8 ground rent, and as he has paid tax (through his tenant) on £48, he finally pays tax on £40 which is his net income from the property. B, the ground landlord, pays tax on £8 (deducted by A), so that the Revenue has received tax on £48 (£40 + £8).

Exemptions.

The following are exempt from taxation under Schedule A—

Charities, in respect of rents received and property occupied and owned by them.

Unregistered friendly societies (income not exceeding £160).

Registered friendly societies which do not insure for more than £300 or grant annuities of more than £52 per annum.

Registered trade unions (insurance £300 and annuity of £52)—so far as the income is devoted to sick, provident, and out-of-work benefits, etc.

Registered co-operative societies must, however, pay tax.

Owner-Occupier.

It must be clear that an owner-occupier is liable to tax ; he certainly derives income from the property just as he would if he let it to a tenant. Then he says : " but I had to borrow money to buy the house and I have to pay interest on the mortgage, this item reducing my income from the property so I should receive some allowance in respect of the payment." The way of granting this allowance will now be explained.

T. Williams, instead of continuing to pay rent for the house in which he resides, considers it will pay him better to buy the house; the house is offered for £500 but as he has only £150 spare capital he borrows the balance of £350, at 5 per cent, from a building society and undertakes to repay the amount at the rate of £25 a year. The first year he will be charged with £17 10s. as interest, so that the difference between this amount and £25 is a repayment of part of the sum borrowed; the next year he will be charged interest on £342 10s. (£350 plus £17 10s. minus £25), so of the £25 repaid £17 2s. 6d. will be reckoned as interest and £7 17s. 6d. as a repayment of capital, and so on until the whole £350 is repaid.

From the above it will be quite clear the £25 may not be reckoned as being paid out against the income from the house; the interest only is allowed. The general arrangement with a building society is that the borrower pays the interest in full and the society undertakes responsibility for the tax, a certificate being sent by the society to the Revenue stating the amount of interest that has been paid in full.

The owner's assessment on the house will be reduced by the amount of interest paid.

Purchase of Property.

When property is purchased an adjustment of the tax is necessary so an actual transaction is given below—

1919		JOHN BROWN, Esq., In account with SIMS & SYMES			
June 18.	Purchase Money, Warehouse, Market Street, Exminster	£	s. d.	£	s. d.
				400	- -
	<i>Deduct—</i>				
	Ground Rent, 25th March, 1919, to 18th June, 1919, @ £12 10s. p.a.		2 18 2		
	Less tax @ 6s.		17 5		
				2 - 9	
				397 19 3	
	Deposit paid	40	- -		
	Cheque for balance of purchase money	360	- -		
	Professional charges and disbursements			6 6 -	
	Balance due	4 5 3			
		£404 5 3		£404 5 3	

The property for purposes of taxation is assessed at £62 10s., including the ground rent of £12 10s., so that the ground landlord pays by deduction tax on £12 10s., and the owners pay on £50. The ground rent is payable half-yearly—March and September. Tax is payable in January, 1920, for the period 6th April, 1919, to 5th October, 1919, so it is only this period which is covered by the adjustment, the interest of the respective taxpayers being—

	Income.	Tax.
	£ s. d.	£ s. d.
Seller (6th April to 18th June)	9 15 2	2 18 7
Buyer (19th June to 5th October) . . .	15 4 10	4 11 5
Ground landlord (25th March to 29th September)	6 5 -	1 17 6
	<u>£31 5 -</u>	<u>£9 7 6</u>

The seller and buyer would pay the total tax.

	£ s. d.	£ s. d.
Seller	12 13 4	3 16 -
Buyer	18 11 8	5 11 6
	<u>£31 5 -</u>	<u>£9 7 6</u>

But as the buyer deducts the whole of the tax (£1 17s. 6d.) from the ground rent which he pays in September, he must allow the seller the proportion of the tax (17s. 5d.) in respect of the ground rent (£2 18s. 2d.) covered by the seller's ownership of the property, so that the adjustment would be as shown at foot of page.

It will be seen that in the purchase account of the property the seller has allowed to the buyer £2 18s. 2d. in respect of the ground rent, but has charged him with 17s. 5d. tax, which the buyer is liable for, seeing that he deducts the whole of the tax from the full ground rent.

Property tax is payable in two instalments in arrear—1st January, covering the six months, 6th April to 5th October, and 1st July covering the six months, 6th October to 5th April.

In the above example, though the property was sold on 18th June, the seller would be called upon early in July to pay tax covering the period 6th October, 1918, to 5th April, 1919.

Seller.		Buyer.		Ground Landlord.	
	Tax.		Tax.		
	£ s. d.	£ s. d.	£ s. d.		£ s. d.
Income	12 13 4	Income	18 11 8	Income	6 5 -
Less ground rent paid to buyer	2 18 2	Add ground rent received from seller	2 18 2	Less tax	1 17 6
					<u>£4 7 6</u>
			21 9 10		
		Less ground rent paid	6 5 -		
					<u>£6 5 -</u>
					15 4 10
					9 15 2
	<u>£9 15 2</u>		<u>£15 4 10</u>		
	<u>£2 18 7</u>		<u>£4 11 5</u>		

Total tax paid = £2/18/7 + £4/11/5 + £1/17/6 = £9/7/6 on £31 5 -

Again in January, 1920, he would pay tax (£3 16s.) upon £12 13s. 4d., covering the period 6th April, 1919, to 18th June, 1919, but as he recovers 17s. 5d. in respect of £2 18s. 2d. paid to the purchaser, he finally suffers tax to the extent of £2 18s. 7d. for this particular period.

CHAPTER IV SCHEDULE B

(INCOME FROM OCCUPATION OF LANDS)

THE tax payable under this schedule is often referred to as the Farmer's Tax, as it is a tax on the profits arising from the occupation of lands (including farm-houses with farm buildings *rented* and occupied with the lands for farm purposes). If the occupier is also the owner the value of the farm-house is chargeable under Schedule A, not under Schedule B. Similarly, labourers' cottages and a farm-house used for the purposes of a trade, say, of a blacksmith or a butcher, are not liable to Schedule B, but the profits arising from the carrying on of such a trade are charged under Schedule D.

Assessment.

The assessment is based on the gross rental value as fixed by Schedule A, but in the case of nurseries and market gardens the profits are ascertained according to the rules of Schedule D (the average profits of the preceding three years).

Where land is not occupied, or mainly occupied, with a view to profit, the assessment is based upon one-third of the rental value; under this heading would come land for preserving game, lands exceeding one acre attached to a house, and sports club grounds, though in the latter case if the club is controlled by shareholders the liability is on the full rental value. In the above instances of amenity lands no relief may be claimed and the tax is payable in one amount on the 1st January.

The farmer may, by giving written notice before 6th June, be assessed on his three years' average profits instead of the estimated profits under Schedule B.

The farmer is entitled to a privilege not granted to other taxpayers and that is, if he finds that his actual profits for the year are less than the assumed profits (his rental value) he may claim to pay tax on the lesser amount. His tax is payable in January and July, so that instead of paying the whole of the second instalment of the tax he may have it adjusted in accordance with his actual profits. Obviously, if he elects to be assessed upon the average profits, it will be necessary for him to keep books, and to credit the

farm accounts with the cost of any produce or stock supplied for consumption by the household.

In these circumstances if the farmer owns his farm he may charge the net rental value (Schedule A) against his profits, as though he actually paid rent.

Where a person owns and occupies a farm he will pay tax on both Schedules A and B: on Schedule A as owner; on Schedule B as occupier, but in this case the assessment would be the gross rental value less the value of the farm-house.

EXAMPLE 1. House let at £124 a year together with four acres of land at £6 per acre (for pleasure purposes)—

Schedule A—	£	s.	d.	£	s.	d.
House and 1 acre				130	—	—
Less allowance for repairs = £20 plus £24 × $\frac{1}{3}$				24	—	—
				106	—	—
3 acres of land	18	—	—			
Less $\frac{1}{3}$	2	5	—			
				15	15	—
Net assessment				£121	15	—
Schedule B—3 acres @ £6 = £18 × $\frac{1}{3}$				£6	—	—

EXAMPLE 2. A farmer owns and occupies a farm worth £320 a year and a farm-house worth £60 a year—

Schedule A—	£	s.	d.
Assessment . . . £320 + £60	380	—	—
Less allowances for repairs:			
£60 × $\frac{1}{3}$. . . £12			
£320 × $\frac{1}{3}$. . . £40			
	52	—	—
Net Schedule A assessment	£328	—	—
Schedule B—£380 - £60	£320	—	—

His profits will thus be assumed to be £320; if they are less he may have the assessment amended.

EXAMPLE 3.—A farmer rents a farm for £300, labourers' cottages £24, and also pays £40 for shooting rights—

Schedule A—	£	s.	d.
£300 + £40	340	—	—
Less $\frac{1}{3}$	42	10	—
	297	10	—
Cottages £24			
Less $\frac{1}{3}$ 6			
	18	—	—
Schedule A net assessment	£315	10	—
Schedule B—			
Assessment £300 + £40	£340	—	—

The £24 for labourers' cottages is not included under Schedule B, so that his profits will be assumed to be £340.

Loss.

If the farmer proves that he has suffered a loss instead of making a profit he may reclaim the tax

paid and, in addition, if he has other income which has been taxed he may reclaim tax on so much of the taxed income as is represented by the loss.

EXAMPLE. A. Smith owns and occupies a farm and farm-house of the gross value of £360, the farm-house being worth £60. Instead of making a profit he incurs a loss of £30. He has paid tax as follows—

<i>Schedule A</i>	£	s.	d.	<i>Schedule B</i>	£	s.	d.
Farm, £300 less $\frac{1}{2}$	262	10	—	Gross value, £360 —			
Farm-house, £60 — $\frac{1}{2}$	48	—	—	60	300	—	—
	<u>£310</u>	10	—	Less $\frac{1}{2}$ for earned income	30	—	—
					<u>270</u>	—	—
				Husband and wife allowances	225	—	—
					45	—	—
					<u>310</u>	10	—
					<u>£355</u>	10	—
					£	s.	d.
£225 @ 2s. 3d.					25	6	3
£130 10s. @ 4s. 6d.					29	7	3
					<u>£54</u>	13	6

His liability to tax is as follows—

	£	s.	d.
Schedule A	310	10	—
Less loss, Schedule B	30	—	—
	<u>280</u>	10	—
Less allowances	225	—	—
	<u>£55</u>	10	—

Having paid £54 13s. 6d. in tax he is entitled to the return of £48 8s. 7d.

As the profit arises as a result of the farmer's labour it is considered as earned and as such is subject to the 10 per cent reduction.

Exemption.

Profits arising from farming carried on by a charity are exempt from tax, provided that the work is mainly carried on by the beneficiaries of the charity and the profits devoted to the purposes of the charity.

CHAPTER V

SCHEDULE C

(INTEREST FROM PUBLIC FUNDS)

THIS schedule, which is not often met with by the taxpayer in general, covers the interest and dividends paid out of any public revenue (British, Colonial or Foreign) through a banker or agent in the United Kingdom.

The rate of tax deducted is the standard rate (4s. 6d.), so that if the recipient is not liable to tax or only liable at 2s. 3d. in the £, he will claim repayment on the excess tax paid.

Generally interest on British Government securities is paid in full and the recipient is chargeable under Schedule D or E, but he may request the Bank of England to deduct the tax instead of paying the interest in full.

Where the half-yearly interest is 50s. or less tax is not deducted at the source.

CHAPTER VI

SCHEDULE E

(INCOME ARISING FROM EMPLOYMENTS)

UNTIL April, 1922, this schedule covered the salaries, etc., received by persons in the employment of the State, corporations, societies, public bodies, and limited companies. From 6th April, 1922, salaries and wages arising from employment of any kind are assessed under this schedule.

The assessment for 1923/24 is based on the salary, etc., the taxpayer is receiving on the 6th April, 1923, but if an increase is received an additional assessment will be made, but on the other hand if the taxpayer is unfortunate enough to suffer a reduction in salary, the assessment will be amended accordingly.

Obviously, if a person is paid by way of commission it will be impossible to say on the 6th April what his year's income will be, so his previous year's commission will be taken as the basis, with the right to an adjustment if the income varies from that of the previous year. For taxation purposes the salary of a Member of Parliament is considered as £300, not £400.

In the case of government employees, claims are made in respect of the various allowances, and then tax at the appropriate rate is deducted from the salary.

Railway companies are called upon to pay the tax on the salaries of employees (except weekly wage-earners) and the tax is then deducted from the salary paid.

In many large concerns the employer—by arrangement—pays the tax of its employees, and deducts the amount from the monthly payment of salary. In this way the employee does not feel the tax quite so much as if he receives the salary in full and then has to provide the six months' tax in one amount.

Expenses Allowed.

If the holder of any office of profit is put to any necessary expense in carrying out his duties he may charge such expense—if not borne by his employer—against his salary.

A traveller who is allowed £2 a week as expenses, actually spends £2 5s. a week during the year; he

would be allowed to charge the excess £13 against his commission.

On the other hand, a company director would not be allowed to charge expenses incurred attending directors' meetings. Again, in these days a person might find it desirable or necessary to live a good distance from his place of employment and thinks the cost of his season ticket or

other employment—e.g. a person engaged as a clerk during the day and having an evening engagement as a teacher. When the return is made some firms adopt the practice of advising their employees of the amount returned so that when the employee makes his return the two amounts agree.

In due course an assessment is received by the



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travelling expenses should be allowed. He would, however, be disappointed in this respect.

Where a tax-free salary is received the income of 1923/24 would be increased by the amount of tax paid by the employer in the year 1922/23, as it is equivalent to the employee receiving a larger salary.

Return.

A form of return is served upon employers who are required to give particulars of their employees (except weekly wage-earners, who are returned on a separate form) who receive more than £150 a year, and if receiving less than £150 if they have

employee, and if he is not satisfied that the amount charged is correct he must appeal within 21 days to the inspector, and not to the collector of taxes

Weekly Wage-earners.

In the case of weekly wage-earners employed by way of manual labour, a form is sent on which the employer is required to state the wages paid during the preceding quarter at the rate of more than £150 a year. (Persons paid at hourly, daily or weekly rates.) The tax is paid quarterly but against this is allowed a quarter of the year's allowances to which the employee may be entitled. It may happen in some cases that the quarter's

allowance exceeds the quarter's wages and in this case the excess allowances are carried forward to the next quarter, so that in the end the full year's allowances are set against the full year's income. If it should happen that tax has been paid for one quarter and the year's income is less than the allowances, repayment would be claimed of the tax paid.

EXAMPLE. Jones, who is married, is employed as an electrician at £5 10s. a week. (Allowances: 10 per cent for earned income and £225 husband and wife)—

1ST QUARTER 6th April to 5th July		2ND QUARTER 6th July to 5th Oct.		3RD QUARTER 6th Oct. to Jan. 5th		4TH QUARTER 6th Jan. to 5th April	
Wages	£ 71 10 -	Wages	£ 49 10 -	Wages	£ 71 10 -	Wages	£ 60 10 -
Less 10%	7 3 -	Less 10%	4 19 -	Less 10%	7 3 -	Less 10%	6 1 -
	64 7 -		44 11 -		64 7 -		54 9 -
Allces.	56 5 -	Allces.	56 5 -	Allces., £56/5 + £11/14	67 19 -	Allces., £56/5 + £3/12	59 17 -
Taxable	£8 2 -	C/fwd.	£11 14 -	C/fwd.	£3 12 -	Overpaid on	£5 8 -
The year's wages are £71/10/0, £49/10/0, £71/10/0, and £60/10/0						£ 253 - -	
Less 10% for earned income						25 6 -	
						227 14 -	
Husband and wife allowances						225 - -	
Tax payable on						£2 14 -	

Tax was paid on £8 2s. on the first quarter's wages, so that Jones can claim tax on £5 8s. (£8 2s. - £2 14s.).

The following come under the heading of *weekly wage-earners* or *manual workers*: omnibus and tram drivers and conductors, porters, liftmen, warehousemen, chauffeurs, chefs, cinema operators, working foremen, etc.

Non-manual workers include: clerks, typists, draughtsmen, shop managers, shop walkers and assistants, stock-keepers, time-keepers, ticket collectors, musicians and attendants in theatres and cinemas, etc.

Allowances.

In addition to the usual family allowances weekly wage-earners are granted allowances as follows—

Contributions paid to trade unions or friendly societies for death or superannuation benefits.

Cost of tools, explosives, and similar expenses incurred exclusively for the purposes of the employment.

Special clothing necessary for the employment, the allowance being arranged through the employee's trade union.

CHAPTER VII SCHEDULE D (INCOME FROM SOURCES NOT COVERED BY SCHEDULES A, B, C, AND E)

THIS schedule embraces the income arising from the carrying on of any trade, profession or vocation, and certain income from abroad. It is also the net for catching any income which has escaped

assessment under the four schedules previously mentioned.

Assessments.

With certain exceptions, which will be dealt with later, the assessment is based on the average profits arising during the three years ending on the 5th April preceding the year of assessment, or a prior date on which the books of the concern are made up; e.g. for the year 1923/24, the three average years would be 1920/21, 1921/22, 1922/23, if the firm's year ended on the 31st March or the 5th April, but if the books are made up at 31st December the average profits of the years 1920, 1921, and 1922 would be accepted as the basis.

When the form of return is sent out in May it is impossible for the trader to say what his profits will be for the year ending the following 5th April, so it is assumed his profits will equal those of the average of the previous three years; if they prove to be more the assessment is not increased nor is it decreased if the profits are less (excepting in the case of actual loss).

For purposes of income tax it is very necessary that books should be kept. A trader sends in his return in perfectly good faith, but the inspector

may think the figures are too low, and fixes a higher assessment; it remains then for the trader to prove by his books that the figures sent in are the correct ones.

Of course, it is possible to run a business without keeping proper books, but this lack of method often leads to the bankruptcy court.

It is usual for firms of any size to send a certified copy of the accounts together with the return, as this saves a lot of trouble to both sides. Where the inspector does not agree with the figures submitted the best way is for the trader to see him and explain matters, but above all not to attempt to hide anything; if he has a good case the trader will obtain satisfaction as the inspector is interested only in balancing the scales between the Revenue and the taxpayer.

Deductions Allowed.

The profit of a business is the amount left over after charging all expenses necessary to the getting of the business. The ideas of traders as to what are necessary expenses vary very considerably, and in order to put the matter on a proper footing the Revenue states specifically what may and what may not be charged as expenses, particulars of these being given below.

Deductions are allowed—

1. For repairs of premises occupied for the purposes of trade, etc., and for the supply or repair of implements, utensils, or articles employed, not exceeding the sum usually expended for such purposes according to the average of the three years preceding.

2. For debts proved to be bad; also for doubtful debts according to their estimated value.

3. For the rent of premises used *solely* for the purposes of the business, and not as a place of residence.

4. For a proportion, not exceeding two-thirds, of the rent of any dwelling-house *partly* used for the purposes of the business.

5. For the annual value of any premises occupied by the owner *solely* for the purposes of the business, and not as a place of residence, according to the amount on which duty has been paid under Schedule A—less ground rent, if any.

6. For a proportion, not exceeding two-thirds, of the annual value (according to the amount on which duty has been paid under Schedule A)—less ground rent, if any—of any dwelling-house occupied by the owner and *partly* used for the purposes of the business.

7. For any sum paid as excess profits duty, corporation profits tax, or any sum actually paid into the Exchequer on account of the excess of the profits of a "controlled establishment."

(Where super tax is paid by certain private limited companies corporation profits tax is repaid.)

8. For any other disbursements or expenses

wholly and exclusively laid out for the purposes of the trade, etc.

(In cases 4 and 6 the commissioners may allow a greater sum than two-thirds where they consider circumstances warrant it.)

No deductions are allowed—

9. For any interest on capital, for any annual interest, annuity or other annual payment, payable out of the profits or gains, or for any royalty or other sum paid in respect of the user of a patent. (The duty on such interest, patent royalty, or other annual payment should be deducted from the person to whom the payment is made.)

10. For any sums paid as salaries to partners, or for drawings by partners.

11. For any sums invested or employed as capital in the trade, etc., or on account of capital withdrawn therefrom.

12. For any sums expended in improvement of premises or written off for depreciation of land, buildings, or leases.

13. For any loss not connected with, or arising out of the trade, etc.

14. For any expenses of maintenance of the persons assessable, their families, or establishments; or for any sum expended in any other domestic or private purpose.

15. For any loss recoverable under an insurance or contract of indemnity.

16. For any sum paid as United Kingdom income tax on profits or gains, or on the annual value of trade premises. (Colonial or foreign income tax paid in respect of the profits in the place where they arise, may, however, be deducted.)

17. For wear and tear of machinery or plant; but an allowance may be claimed in respect of this item.

It will probably be of interest to the trader to examine some of the above items—

1. Ordinary repairs to the premises occupied; whilst renewals of loose tools, furniture, typewriters, and similar small items would be allowed, but in these cases a claim could not be made for wear and tear.

2. Bad debts actually incurred are allowed, as are doubtful ones where the trader anticipates a probable loss, as in the case of the bankruptcy of a customer. Any amount transferred to a reserve for bad debts is not allowed as this is merely taking part of one year's profit to set against a loss in future years.

Any debts written off as bad and subsequently recovered must be included in the profits of the year of recovery.

4. Take the case of a small draper occupying a private house and using one or two rooms for the purpose of a shop; he would naturally expect to be able to charge some part of the rent and rates as expenses in carrying on his business; again, a person keeps a boarding house but the portion of

the premises occupied by the proprietor and his staff is relatively small, so that in this case probably more than two-thirds of the rent would be allowed. The same principle applies where the occupier instead of paying rent is the owner of the premises : he would be allowed to charge two-thirds of the net annual value.

5. If the occupier paid rent for his trade premises

it necessary to charge £350 against his year's profits, he would be allowed only £300, the amount on which he has paid tax under Schedule A.

8. Under this section the following might be noted—

General district, poor and water rates, health and unemployment, fire, burglary, accident and employers' liability insurance, lighting and heating,



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he would be allowed to charge the rent against his profits, but as he owns the premises and has paid tax under Schedule A, he is allowed to charge five-sixths of the gross assessment. Where the premises are of the nature of a mill or factory the full gross assessment instead of the five-sixths is allowed.

If a trader pays a rent of £280 for premises which are assessed at £300 he may charge the £300 against his profits as he has paid tax on this amount, but can only deduct tax on the £280 payable to his landlord ; on the other hand, if he owns premises valued at £300 but considers

contributions to staff superannuation funds, loss of trading stock by fire or water (the amount not covered by insurance), legal expenses, say, in the collection of debts or actions against customers, but not expenses connected with a lease of premises or the flotation of a company. The preliminary expenses of a company are considered as capital charges ; the same applies to the advertising of a new business, but the ordinary average cost is allowed, though it is a difficult matter to decide at what point the business is no longer a new one.

Any loss due to the dishonesty of an employee

or loss by burglary (not covered by insurance) is allowed.

Removal expenses for the purpose of extending a business are not allowed, but if the removal is compulsory—where a lease expires and the tenant has not the option of renewing—the cost would be allowed.

A loss on the sale of a house would not be allowed, provided the person was not buying and selling houses as his business, nor would a profit be assessable to tax.

Similarly a loss on a casual stock exchange transaction would not be allowed nor a profit be assessable.

A *bona fide* salary paid to a wife for assistance in the business would be allowed, though the amount paid would be added to the trader's profits for purposes of tax (an allowance up to nine-tenths of £50 would be made from the assessable income so that in effect £50 is eventually charged against the profits).

Doctors and dentists are allowed to charge a proportion of the rent, rates, lighting and heating of the premises used for professional purposes, the wages of a maid, groom or chauffeur, the keep of a horse or the upkeep of a motor-car used for professional purposes, or other travelling expenses visiting patients, licences, medical papers and books and professional subscriptions. The original cost of the horse or motor-car, or the additional cost of a superior car, is considered as capital expenditure.

9. Interest on partner's capital, although a necessary charge on the business, is not allowed, as it amounts to an appropriation of part of the profits. In making payments of any annual interest, etc., to persons outside the business the trader deducts tax and having deducted the tax must account for it to the Revenue; this is done by adding back to the profits the amount of interest paid; e.g. profits after payment of £100 interest are £1,000; for tax purposes the profits are £1,100, but the trader suffers tax on £1,000 as he deducts tax from the £100 interest.

10. Such items are clearly the income of the trader and are drawings in anticipation of profits.

12. The cost of ordinary repairs would be allowed. The trader finds it necessary to improve his premises and naturally would wish to write off the cost against his profits, but for taxation purposes the cost is considered as increasing the value of the premises; so far as depreciation is concerned, if the premises are of the nature of a mill or factory, the owner would be allowed to charge six-sixths instead of five-sixths of the amount on which he has paid tax under Schedule A.

13. It has been held that damages paid to an hotel visitor for injuries caused by a falling chimney could not be allowed, as it did not arise from the carrying on of the particular trade; on the other hand, losses sustained by railway

companies in compensating passengers for accidents are allowed.

14. Take the case of a man in business as a butcher, grocer or baker; the household requirements are supplied from the shop without payment being made, but the price of the articles should be added to the business done as though they were sold to an outsider; the same principle applies where the grocer supplies goods to the butcher in return for meat supplied to the grocer's family; similarly in the case of a boarding-house keeper, provisions are purchased mainly for consumption by the visitors, but the cost of the proportion consumed by the proprietor's household and staff should be added to the profit. (Household requirements are not a charge against profits but are met after profits are made, exactly in the same way as those of a person in receipt of a salary.)

In the purchase of a business one of the first points raised by the prospective buyer is the turnover; the trader will see at once that if no record of family requirements has been kept the turnover will appear lower than the true figure, and as a result the sum offered for the business will not be so high.

15. Where a loss of trading stock is not fully covered the difference may be charged against the profits but not in other cases.

16. Income tax whether on property or profits of trade is not an expense of the business, but is a payment after the profits have been ascertained.

17. A trader may consider it necessary to write off 10 per cent per annum from his plant and machinery, but it does not follow that the Revenue will allow this rate. The commissioners may make such allowances as they consider just and reasonable, but special rates have been fixed for the more important trades of the country.

Wear and Tear.

There are two methods of calculating depreciation of plant, etc.—

1. The prime cost method, which is operated by taking the original cost of the plant, plus any additions and less any sales (usually adopted in the case of ships).

2. The diminishing value method—the first year's depreciation being calculated on the original cost of the plant, the second year's on the value at the beginning of the second year; any additions made in the second year would be allowed for in the third year and not in the second year, but on the contrary if any sales were made in the second year the depreciation would still be calculated on the value at the beginning of the second year.

The allowance for 1923/24 would be calculated on the value of the plant at 5th April, 1923, or at 31st December, 1922, if the trader's financial year is January to December, as it is the amount

the plant will depreciate during the year of assessment.

EXAMPLE. Seeing that the amount allowed by the Revenue does not always agree with the amount the trader may consider it necessary to write off plant, etc., it is necessary to keep a record of these items of capital expenditure as distinct from the financial books of the firm for purposes of checking the amounts allowed as "wear and tear." Repairs should be charged against the year's working, but renewals must be charged to capital to obtain the benefit of the allowance—

Traders' Account 10% Depreciation	£	Allowance or Wear and Tear 6%	£
Original cost . . .	20,000	Original cost . . .	20,000
1st year, written off . .	2,000	1st year, allowance . .	1,200
Value, end of 1st year . .	18,000	Value, end of 1st year . .	18,800
2nd year, written off . .	1,800	2nd year, allowance . .	1,128
Value, end of 2nd year . .	16,200	Value, end of 2nd year . .	17,672
3rd year, additions . . .	1,000	3rd year, additions . . .	1,000
			18,672
		3rd year, allowance . .	1,060
3rd year, written off . .	17,200	Value, end of 3rd year . .	17,612
	1,620	4th year, additions . . .	3,000
Value, end of 3rd year . .	15,580		20,612
4th year, additions . . .	3,000	4th year, sales . . .	1,322
			19,290
4th year, sales . . .	18,580	4th year—	
	1,322	Allowance . . .	1,056
		Extra allowance . . .	239
4th year, written off . .	17,258		1,295
	1,558	Value, end of 4th year . .	17,995
Value, end of 4th year . .	15,700	5th year, allowances . .	1,080
5th year, written off . .	1,570		1,080
		Value, end of 5th year . .	£16,915
Value, end of 5th year . .	£14,130		

From the above example it will be seen that the allowance for the third year is based on the value at the end of the second year (£17,672), and for the fourth year on £17,612 (the value at end of the third year)—ignoring the sales of that year. In the fourth year the trader replaces machinery originally costing £2,000 by more up-to-date machinery costing £3,000. He receives £1,322 as a result of the sale but as the item has been reduced by wear and tear allowances to £1,561 only, he may claim an extra allowance of £239, which is the difference between the two amounts; the original capital charge of £2,000 is thus wiped out and is replaced by one of £3,000. The allowance on the extra £3,000 is not made until the fifth year, the rule being that sales or purchases of such capital items do not affect the allowances of the year in question.

The total allowances for wear and tear may not exceed the original cost of the item in question.

If the average profits of the three years are less than the amount of the allowance, the difference may be set against the assessment of the following year, and where a business is sold the new proprietor may claim any such allowances that may

be carried forward, excepting that he may not obtain allowances in excess of the price he paid for the machinery.

EXAMPLE—

Assessment year 1922/23.	£	Assessment year 1923/24	£
Profits to 31st December—		Profits to 31st December—	
1920 . . .	£1,200	1920 . . .	£1,400
1921 . . .	1,400	1921 . . .	100
1922 . . .	100	1922 . . .	2,100
Allowance for wear and tear, 5% on £20,000 . .	1,000	Allowance for wear and tear, 5% on £19,000 (£20,000 - 1,000)	£950
Amount carried forward to 1922/23	£100	Brought forward	100
			1,050
		Taxable profits . . .	£150

No tax payable.

The capital value of the plant at the end of 1921 is £20,000, so that the allowance for 6th April, 1922, to 5th April, 1923, is based upon this figure.

The supply, repair, and replacement of loose tools and implements up to the average cost of the preceding three years may be charged against the year's profits and, consequently, no other allowance is made. This covers a rather wide field and would include contractor's implements and barrows, carpenter's and engineer's tools, baker's and laundry baskets, milk cans, butcher's knives, decorator's ladders and trestles, and similar items.

Specimen Accounts.

Jas. Smith's Profit and Loss Accounts for the three years ending 31st December, 1922, which form the basis of the assessment for the year 1923/24, with the adjustments necessary for income tax purposes, are given on page 750.

Income tax (Schedules A and D) is not allowed against profits but is a payment after profits are earned.

Life Assurance. An allowance will be made from the total tax payable.

Own Salary and Interest on Capital. These are appropriations of profit.

Interest on Loan and Ground Rent. These are added back to the profits as the trader is entitled to deduct tax when paying the interest and ground rent, so he really does not suffer tax on these items. If the interest had been paid in respect of a bank overdraft it would be allowed as the bank would receive the interest in full and account for the tax through their accounts.

Extension of Premises. This is considered a capital charge.

Goodwill. Though the trader may deem it necessary to extinguish this capital charge as soon as possible it is not allowed for tax purposes.

Donations. These are only allowed if they are in the nature of a subscription to a hospital where his employees may receive necessary treatment.

Depreciation. The amount written off by the

	1920.	1921.	1922.		1920.	1921.	1922
	£	£	£		£	£	£
To rates . . .	35	50	55	By profit as per rating A/c . . .	2,500	2,150	2,850
" lighting and heating . . .	30	45	40	" dividend (net) . . .	21	21	21
" income tax, Sch. A . . .	30	30	30	" profit on sale of house . . .	100	—	—
" do. do. Sch. D . . .	80	70	50				
" embezzlement by employee . . .	20	—	—				
" bad debts . . .	30	40	60				
" reserve for bad debts . . .	15	—	—				
" trade expenses . . .	200	204	208				
" fire insurance . . .	12	12	12				
" life assurance premiums . . .	15	15	15				
" salaries . . .	750	900	850				
" own salary . . .	300	300	300				
" advertising . . .	50	65	55				
" repairs . . .	30	25	40				
" interest on capital . . .	30	30	30				
" interest on loan . . .	20	20	20				
" ground rent . . .	10	10	10				
" extension of premises . . .	240	—	—				
" depreciation of machinery and plant . . .	100	90	80				
" amount written off goodwill . . .	50	50	50				
" donations . . .	10	10	10				
" balance (net profit) . . .	564	205	956				
£	2,621	2,171	2,871	£	2,621	2,171	2,871

PROFIT AND LOSS ADJUSTMENT ACCOUNT

	1920.	1921.	1922.		1920.	1921.	1922.
	£	£	£		£	£	£
Items not chargeable—				By net profit Items not allowed—	564	205	1,006
To Taxed Income—				By income tax, Sch. A . . .	30	30	30
Dividends . . .	21	21	21	do. do. Sch. D . . .	80	70	50
Value of premises . . .	100	100	100	" life assurance . . .	15	15	15
Not Taxed—				" own salary . . .	300	300	300
Profit on sale of house . . .	100	—	—	" interest on capital . . .	30	30	30
Profit adjusted . . .	1,228	709	1,480	" interest on loan . . .	20	20	20
				" ground rent . . .	10	10	10
				" extension of premises . . .	240	—	—
				" depreciation of plant, etc. . .	100	90	80
				" goodwill . . .	50	50	50
				" donations . . .	10	10	10
£	1,449	830	1,601	£	1,449	830	1,601

Adjusted profits for 1920	£	1,228
" " " 1921	£	709
" " " 1922	£	1,480
	£	3,417
Average for one year	£	1,139
Less allowances for wear and tear	£	39
Assessable profit for 1923/24	£	1,100

trader is not allowed but in place of this an allowance is made based upon the capital value of the plant at the 31st December, 1922, the amount the item will depreciate during the year 1923 or the government year 1923/24.

The reserve for bad debts is considered to cover the case of possible insolvent debtors, so is allowed.

Now take the other side of the account—

The profit on the house is not assessable so, having been included with the profit, it is now charged against it.

The dividend and the property have each borne tax, so if these were not now charged back against the profits, tax would be paid twice, at the source and again with the total profits.

The trade premises are owned by the trader and the £100 is equivalent to the rent payable if he had rented the premises.

The assessable profits for 1923/24 are £1,100, but if the profits for the year 1923 proved to be £1,500, the assessment would still remain £1,100, as it would if the profits reached only £800.

Tax payable—	£	
Business profits	£	1,100
Less interest on ground rent	£	30
		1070
Earned income allowance 10%	£	107
		963
Husband and wife	£	225
		738
Taxable income	£	738
Ground rent and interest on loan	30 @ 4/6 =	6 15 -
Taxable income	225 @ 2/3 =	25 6 3
	513 @ 4/6 =	115 8 6
	£	147 9 9
Less allowance for Life assurance premiums £15 @ 2/3 (policy taken out in 1917)	£	1 13 9
Tax payable	£	145 16 -

As he deducts £6 15s. tax from the interest and ground rent he finally suffers tax on £1,070, less the various allowances.

It should be noted that interest on a working partner's capital is earned income and subject to the 10 per cent allowances, but interest paid to a sleeping partner or to an outsider is unearned income.

Early Years of Trading.

The government year is from 6th April to 5th April, so that the profits in respect of a business commenced 1st January, 1919, will be estimated

for the period 1st January to 31st March, 1919; for the first complete fiscal year (April, 1919/20) the assessment will be based upon the profits from 1st January to December, 1919. Instead of making an assessment for 1918/19 (three months) it is usual to wait until the profits for the trader's year, 1st January to 31st December, 1919, are known, and then to charge for fifteen months—1st January, 1919, to 31st March, 1920. For the year 1920/21 the basis is the profits of 1919 (January to December), for 1921/22 the average profits of 1919 and 1920 (January to December), and for 1922/23 the average profits of 1919, 1920, and 1921 (January to December), and for subsequent years the basis is the average profits of the three years preceding the year of assessment. In the above case if the trader's year ended on the 31st March the assessment for 1922/23 would be based upon the profits of 1920, 1921, and 1922 (April to March), etc.

EXAMPLE. Business commenced 1st January, 1919—

Profits: 1919, £1,000; 1920, £1,100; 1921, £900; 1922, £800.

Assessments—	1918/19.	1919/20.	1920/21.	1921/22.	1922/23.
$\frac{£1000 \times \frac{3}{12}}$ (3 mos.)	£250	£1000	£1000	$\frac{£1000}{£1100}$ } £1050	$\frac{£1000}{£900}$ } £1000

However, during the first four fiscal years of a business (1918/19 to 1921/22, as above) the trader may claim to pay upon the actual profits if they are less than the assessed profits—

Assessed Profits.	Actual Profits.
1918/19 . . . 250 (3 mos.)	3 months . . . 250
1919/20 . . . 1000	$\frac{2}{3}$ of £1000 + $\frac{1}{3}$ of £1100 . . . 1025
1920/21 . . . 1000	$\frac{2}{3}$ of £1100 + $\frac{1}{3}$ of £900 . . . 1050
1921/22 . . . 1050	$\frac{2}{3}$ of £900 + $\frac{1}{3}$ of £800 . . . 875
1922/23 . . . 1000	1000

Naturally he would elect to pay on the actual profits of £875, instead of the assessed profits of £1,050, and for the other years it is to his advantage to pay on the assessed profits and the Revenue has no power to charge him on the actual profits; in this case it is the taxpayer only who has the option. Tax is payable in January and July, so that the tax for the year 1921/22 will probably have been paid—not always—when the profits of the year 1922 (£800) are ascertained, so that it will be necessary to make a claim for repayment of tax on £175 (£1,050 - £875) (claim within one year from 5th April, 1922).

Loss Instead of Profit.

The trader may be unfortunate, and instead of making a profit incur a loss; he then wonders why he should be called upon to pay tax based on previous years' profits, seeing he has made no profits for the year of assessment. In such a case he may do one of two things: (1) claim

repayment on the amount of the loss and not set the loss against future profits; or (2) pay the assessment and be able to set the loss against future profits. Over a period of years he will pay on exactly the same total amount, but where the rate of tax has a tendency to fall—as at present—it will be to the trader's advantage to claim the loss in the year in which it is incurred.

EXAMPLE. S. Brown's figures are as follows—

1st Jan. to 31st Dec., 1916, Profit £800; 1917, Profit £600; 1918, Profit £700; 1919, Profit £1,100; 1920, Loss £600; 1921, Profit £1,000; 1922, Profit £1,100.

	Claim Made in Year of Loss.	Claim not Made.
1919/20: £800 + 600 + 700 . . .	700	700
1920/21: £600 + 700 + 1100 . . .	200	800
1921/22: £700 + 1100 - 600 . . .	600	400
1922/23: £1100 - 600 + 1000 . . .	700	500
1923/24: -£600 + 1000 + 1100 . . .	700	500
Total assessments	£2900	£2900

The assessment of 1920/21, based upon the profits of 1917, 1918, and 1919, shows a profit of £800, but the working of 1920 shows a loss of £600 instead of a profit; in this case if tax has been paid on the £800, the trader may reclaim tax on £600 or, if the tax has not been paid, the assessment would be reduced to £200; in either case, having been allowed for the loss of £600 he cannot set this amount against the profits of 1921/22, and subsequent years; these assessments are higher but as the tax is at a lower rate the trader benefits.

According to the Income Tax Acts tax should be paid in full and a repayment claim made in respect of the £600 loss, but in practice generally the trader would have paid tax on half the amount (£400) early in 1921, and would then have the second half of the assessment (£400) cancelled and claim repayment on £200. If the loss had been £1,000 instead of £600, he would be able to set the £200 (£1,000 - £800) against future profits.

(Claim for repayment to be made within one year of the end of the year of assessment).

Trade or Business Discontinued.

Where a trader discontinues his business (but not selling or disposing of it in any way) he may claim to pay upon the actual profits of the year of closing instead of upon the assessed profits; in addition if the total tax paid during the preceding three years upon the assessed profits has exceeded the amount he would have paid upon the actual aggregate profits of the three years, he may reclaim the excess tax suffered. In this case he may not deduct the loss of one year from the total profits of the other two years.

EXAMPLE. A business whose year is 1st April

to 31st March is closed down at 30th September, 1922—

1916/17, Profit £800 ; 1917/18, Profit £600 ; 1918/19, Profit £700 ;
1919/20, Profit, £500 ; 1920/21, Loss £150 ; 1921/22, Loss £50 ;
1st April to 30th September, 1922, Profit £200.

Income Tax Year.	Assessment.	Actual Profits.	Amount on which to reclaim.
1919/20 : £800 + 600 + 700 ÷ 3	£700	£500	£200
1920/21 : £600 + 700 + 500 ÷ 3	600	Nil	600
1921/22 : £700 + 500 - 150 ÷ 3	350	Nil	350
1922/23 : £500 - 150 - 60 ÷ 3	50	200	Nil
	£1700	£700	£1150

The closing year is 1922/23, but as business ceased on 30th September, only half the assessment of £100 (£50) is chargeable, so naturally the trader would not think of paying on the actual profits of £200.

Taking the three years together, the net result is a profit of £300 (1919/20, profit £500 ; 1920/21, loss £150 ; 1921/22, loss £50), but he may not deduct the losses of the two years from the profit of the remaining year, so that for the year 1919/20 having paid tax on £700 he may reclaim on £200 (£700 - £500), and the two following years reclaim the whole of the tax paid.

(Claim to be made within six years.)

Loss on One Business Set Against Profits of Another.

T. Johnson is a farmer and in addition owns a corn and seed merchant's business.

The profit of the farm is £600 but the other business for various reasons is not quite so prosperous, and shows a loss of £100, so instead of paying tax upon £600 he pays upon £500.

This is limited to trades, professions or vocations, so that a person who receives a salary by way of employment may not set against this salary any loss incurred from the carrying on of any business. A commercial traveller lost money in connection with a railway signalling apparatus patent and claimed to set off the loss against his other income, but this was not allowed.

Succession to Business.

If a trader dies or becomes bankrupt the commissioners will, on application, amend the assessment in accordance with the portion of the year covered by the business.

A trader whose assessment for 1922/23 (based upon the profits of the years 1919/20, 1920/21, and 1921/22) is £1,000, dies on 30th September, 1922. His executors may have the assessment reduced to £500 (for the period from 6th April). If the business is actually closed down there is also the right to pay on the actual instead of the assessed profits of the six months.

Where a change in a partnership takes place, either by death or dissolution, the withdrawal of a partner or the admittance of a new partner, or where a person succeeds to a business or profession, the assessment of the year (based upon past profits) still holds good. If it is proved that the profits have fallen short, or will fall short, of the assessed profits, owing to some specific cause since the change or succession, or by reason of the change or succession, the assessment may be amended or the over-payment of tax be repaid.

EXAMPLE 1. The partnership between Brown & Jones is dissolved at 30th September, 1920, and the business is carried on by Jones.

The profits have been 1917/18, £3,000 ; 1918/19, £4,000 ; 1919/20, £2,000 ; 1920/21, £1,800. The assessment for 1920/21 would be £3,000, but Brown would only pay on £750 (half of the half-year's assessment) ; Jones would pay on £750, and also be liable for tax on £1,500 (the remainder of the full assessment). He proves, however, that as a result of the dissolution the year's profits have fallen to £1,800 (£600 from 1st October, 1920) and for the second half-year claims to pay on £600 instead of £1,500. For the year 1921/22 the assessment would be £2,600 (£4,000 + 2,000 + 1800 ÷ 3) unless the profits of 1921/22 are proved to be less than £2,600.

EXAMPLE 2. A and B are in partnership as physicians. A, who is very popular, retires at 30th September, 1921, and is succeeded by C, and as a result of the change the profits are less than the previous average profits. A and B will share the assessment for six months and B and C the remaining six months, with a right to adjustment to actual profits for that period.

EXAMPLE 3. A and B are in partnership and decide to admit C ; the assessment is shared by C, even though it is based upon the previous three years' profits earned by A and B.

EXAMPLE 4. A partnership decides to form its business into a limited company. A and B draw salaries as partners in the firm, but these do not reduce their profits (it is practically drawing in anticipation of profits). As directors of the company they receive directors' fees. The assessment of the company is still based upon the profits of the partnership, but if the profits as a result of payment of directors' fees are less than the assessment, relief may be claimed. Of course, the directors will pay tax upon their fees under Schedule E.

Another example of specific cause would be where the proprietor of a business dies, his widow carries on the business but it is necessary to engage a manager, thus reducing the actual profits as compared with the assessed profits.

Amalgamation.

A and B, each in business on his own account,

decide to amalgamate as from 1st January, 1923. Their profits have been—

A : 1919, £600. 1920, £800. 1921, £1,000. = Average £800.
B : 1919, £500. 1920, £600. 1921, £700. = Average £600.

The assessment for 1922/23 would be £1,400, based upon the combined average profits, and would be shared as follows—

whole of the financial year—6th April, 1923, to 5th April, 1924.

Partnership Profits.

The assessment is made upon the firm and will be shared by the partners according to the manner in which they share the profits of the year of assessment; this holds good even though the



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A SPACIOUS PRIVATE OFFICE

A : 1st April to 31st Dec., 1922	. $\frac{3}{4}$ of £800	. 600
A : 1st Jan. to 31st March, 1923	. $\frac{1}{4}$ of £350	. 175
B : 1st April to 31st Dec., 1922	. $\frac{3}{4}$ of £600	. 450
B : 1st Jan. to 31st March, 1923	. $\frac{1}{4}$ of £350	. 175
		£1,400

As the partnership existed for three months only of the financial year, the partners share one-quarter of the year's assessment (it is assumed they have an equal interest in the partnership).

For the year 1923/24 the assessment would be based upon the profits of 1920, 1921, and 1922 (January to December), and would be shared equally, seeing that the partnership covers the

shares of the assessment year differ from those of the three average years upon which the assessment is based. Where the capital of the partners fluctuates, it is not always possible to say what the interest on capital will be during the year of assessment, so for the year 1923/24 the interest to be paid would be taken as that paid during the year January to December, 1922; if the capital is fixed for the year 1923/24 the interest is possible to state the interest for 1923. Again, partners' salaries in 1923/24 may differ from the three average years (1920, 1921, and 1922) but it is the 1923/24 figure that is taken into account.

The amount of interest and partners' salaries must be deducted before sharing the assessment,

or it would be possible for one partner to gain at the expense of another.

The partners make individual claims for their allowances and these are then set against the firm's assessment.

EXAMPLE. A, B, and C are in partnership, C being a sleeping partner only—

January to December.	1920.	1921.	1922.
Profits	£ 1,500	£ 1,665	£ 1,400
Interest on loan	50	50	50
Interest on capital—			
A	40	50	50
B	40	50	50
C	60	60	70
Partners' salaries—			
A	200	200	300
B	200	200	300
Average = £2,195	£ 2,090	2,275	2,220

A is married and has two children ; B is married but has no children ; C is single. The interest on capital and salaries are the same as for 1922, and the profits are divided : A, two-fifths ; B, two-fifths ; C, one-fifth.

Gross assessment	£ 2,195
Less interest on loan	50
To be divided	<u>£ 2,145</u>

	Total.	A.	B.	C.
Interest on capital	£ 170	£ 50	£ 50	£ 70
Partners' salaries	600	300	300	—
Division of profits	1,375	550	550	275
£ 2,145	<u>900</u>	<u>900</u>	<u>345</u>	

Assessment, 1923/24.	A.	B.	C.
Total income from firm	£ 900	£ 900	£ 345
Less 10% earned income	90	90	Nil
	810	810	345
Husband and wife and children	288	225	135
	<u>622</u>	<u>585</u>	<u>210</u>

Tax Payable.	A.	B.	C.	Char-ges.
2s. 3d. in £	£ 225	£ 225	£ 210	£
4s. 6d. in £	397	360	—	50
	<u>622</u>	<u>585</u>	<u>210</u>	<u>50</u>

When the interest on loan is paid the firm deducts tax at 4s. 6d. in the £, so that it does not suffer tax on the £50, but simply acts as a collector for the Revenue.

Interest but No Profits.

Where annual interest is payable in respect of a loan, tax must be paid to the Revenue, even though the firm does not make any profit. The tax paid is then deducted from the interest so that the firm does not actually suffer any tax.

Interest Received in Full.

Interest on the following Government securities is paid in full and the recipient is called upon to include the amount in his return : Registered and Inscribed 5 per cent War Stock, 5 per cent National War Bonds, 5 per cent and 6 per cent Exchequer Bonds, Treasury Bills, 4 per cent Funding Loan, Victory, and 5½ per cent Exchequer Bonds on Post Office Register, also in other cases where the half-yearly interest does not exceed 50s. For the first year the amount to be returned is the income of that year, the second year is based on the first year, the third year on the second, and so on. If the first year is not a complete one, say, the interest accrues from 6th October only, the second year's interest is the basis of the charge for the second year, and the third year is based on the second or third year's interest at the taxpayer's option.

Colonial and Foreign Securities.

The amount to be included in the return is that arising during the year of assessment, even if it is not actually received in this country.

This covers interest or other annual payments from Indian, Colonial, and Foreign Government loans, railways, and other public undertakings.

Colonial and Foreign Possessions.

This covers the income from stocks, shares, and rents, and is based upon the average of the previous three years, even though the income is not actually received here.

Other income from trading abroad is based on the three years' average, but only on the amount actually received here if the business is not controlled from here.

British Residence.

If the trader is a British resident he is liable to tax on—

1. Profits of trade here.
2. Income from foreign securities, shares, or rents, whether it is brought here or left to accumulate abroad.
3. Profits of a trade carried on abroad, the business being controlled and managed here ; income actually received here from business

As C is a sleeping partner only, he is not entitled to the 10 per cent allowance for earned income.

carried on abroad, the business not being controlled and managed here.

In the case of a company the residence is where the trade or business is carried on. If the control and management is exercised in the United Kingdom, even though all the trading operations are carried on, say, in South America, the whole of the profits are assessable here.

Foreign Traders and Agents in the United Kingdom.

A foreign trader who carries on business in the United Kingdom through a regular agent is assessable in respect of any profits made here. The assessment is made upon the agent who will pay the tax and reimburse himself from moneys due to his principal.

The computation of profits is the same as laid down for a British trader.

Trade is carried on in the United Kingdom if—

- (a) Contract only is made here.
- (b) Delivery only takes place here.
- (c) Contract and delivery are made here.
- (d) Contract and delivery are made here and payment is made abroad.

If an order is obtained here, subject to the approval of the foreign principal, the goods are shipped at a foreign port at the buyer's risk, and payment is made here but receipts are sent from abroad, then trade is not carried on here and the foreign principal is not liable to tax.

Of course, it might happen that a foreign trader sends goods to a British resident at a price which shows very little profit, but in this case the assessment would be based upon the turnover, and the resident charged as agent of the foreign trader.

Return.

On p. 2 of the return the trader is required to give particulars of all untaxed income, on p. 3 all taxed income, together with the total of p. 2, and particulars of any payments to be made out of the income, p. 4 being reserved for claiming the various allowances. (See pp. 756–7)

CHAPTER VIII SUPER TAX

SUPER tax is an additional tax imposed upon a taxpayer whose total income from all sources exceeds £2,000, ordinary income tax being paid upon £2,000, but ordinary income tax and super tax on the surplus above £2,000, the rates being on a gradual scale from 1s. 6d. to 6s. in the £.

Rates.

The present rates are—

	s.	d.
First £2,000 of income	@	Nil
Next £500 (£2,001–£2,500)	1	6
„ £500 (£2,501–£3,000)	2	—
„ £1,000 (£3,001–£4,000)	2	6
„ £1,000 (£4,001–£5,000)	3	—
„ £1,000 (£5,001–£6,000)	3	6
„ £1,000 (£6,001–£7,000)	4	—
„ £1,000 (£7,001–£8,000)	4	—
„ £12,000 (£8,001–£20,000)	5	—
„ £10,000 (£20,001–£30,000)	5	6
Remainder (above £30,000)	6	—

Basis of Assessment.

The basis of the assessment is the total income returned for purposes of income tax for the previous year, so that the super tax return for 1923/24 would include—

Average profits of business 1919, 1920, and 1921	(Income tax year 1922/23)
Income from property (gross)	1922/23
Directors' fees	1922/23
Dividends (gross)	1922/23
Less ground rent, mortgage interest, interest on loan or other charges	1922/23

It should be stated that the 10 per cent allowance for earned income and the various family allowances do not reduce the total income for super tax purposes.

EXAMPLE—

F. Williamson

Statement of total statutory income or super tax purposes for year 1923/24—

	£
Business assessment (3 years' average) 1922/23	1,850
Directors' fees, 1922/23	350
Income from property (gross), 1922/23	300
Income from occupation of land (gross), 1922/23	50
Interest and foreign income, 1922/23	100
Dividends, taxed (gross), 1922/23	200
Wife's income, taxed (gross), 1922/23	500
	£3,350
Less ground rent and mortgage interest (gross), 1922/23	50
Total income for super tax purposes	£3,300

The items marked "gross" have been received less tax, so it is necessary to add the tax deducted at the source to the net income received.

In this case the taxpayer will pay income tax upon £3,350, after the deduction of the various allowances, but as he will deduct tax when paying the £50 ground rent, etc., he will finally pay upon £3,300 only. For super tax purposes he will pay upon £1,300 (£3,300 – £2,000).

Section C.**STATEMENT OF UNTAXED INCOME FOR ASSESSMENT UNDER
SCHEDULE D**

In cases where there is no untaxed income to be returned for assessment, the word "None" should be entered in the money column. and the General Declaration should be signed.

Attention is directed to the note on page 1, as to the liability of a husband to include the income of his wife.

DESCRIPTION OF INCOME.	AMOUNT.			Explanatory Notes.
	£	s.	d.	
FROM TRADE, PROFESSION, EMPLOYMENT or VOCATION, viz.—				
The Trade, Profession, or Vocation of <u>Motor Engineer</u>				
carried on by <u>Benjamin Jones</u>				
at <u>7 Main Street, Barchester (average profits)</u>	1,500	—	—	Average of 3 years' adjusted profits, 31st Dec., 1920, 1921, 1922.
FROM INTEREST, ANNUITIES, ANNUAL PAYMENTS AND DIVIDENDS, NOT TAXED BY DEDUCTION, AND FROM DISCOUNTS, viz.—				
Interest on Banking Accounts or Deposits				
Dividends or Interest on War Loan, National War Bonds and Exchequer Bonds (where not held in the form of "bearer bonds" or "registered coupon bonds")	50	—	—	Actual receipts of year ended 5th April, 1923.
Dividends or Interest on <u>Post Office Issues</u> of Funding Loan, Victory Bonds, 5½% Exchequer Bonds, 5-15 year Treasury Bonds, 3½% Conversion Loan, or 5½% Treasury Bonds				
Small Dividends on other Government Securities and on Corporation Securities (where not taxed by deduction)				
Dividends on Stocks purchased and held through the Post Office Savings Bank				
Discounts, including Discount on Treasury Bills				
Other Interest, Annuities, Annual Payments and Dividends, not taxed by deduction (the particular source to be stated), viz.—				
FROM DOMINION AND FOREIGN SECURITIES (where United Kingdom Income Tax is not deducted on payment thereof), viz.—				
Interest arising from Securities of Governments, Corporations or Companies in any of His Majesty's Dominions out of the United Kingdom	Nil			Amount for year ended 5th April, 1924, whether received in the United Kingdom or not.
Interest arising from Securities of Foreign Governments, Corporations or Companies				
Other Interest, Annuities, or Annual Payments, charged on any property out of the United Kingdom				
FROM DOMINION AND FOREIGN POSSESSIONS, viz.—				
Income arising from Stocks or Shares (where United Kingdom Income Tax is not deducted on payment thereof), or from Rents—				
In any of His Majesty's Dominions out of the United Kingdom				Average amount for 3 years ended 5th April, 1923, whether received in the United Kingdom or not.
In Foreign Countries <u>5% on £3,000 Japanese Loan</u>	150	—	—	
Income arising from any other Possessions out of the United Kingdom (the particular source to be stated), viz.—				
<u>Share of profits of business in Cape Town, as sleeping partner</u>	200	—	—	Average amount actually received in the United Kingdom for 3 years ended 5th April, 1923.
FROM PROPERTY OR PROFITS NOT FALLING UNDER ANY OF THE FOREGOING HEADS and not charged under any other Schedule, viz.—				
Letting Furnished House at				Amount received for year ended 5th April, 1923, if fixed amount; if not then the average of 3 years.
Other Sources (the particular source to be stated), viz.—				
the amount whereof is computed according to				
TOTAL	1,900	—	—	
Less, in the case of a Trade, amount claimed for Wear and Tear of Machinery and Plant, which should not be deducted in arriving at the above figures	20	—	—	The amount the plant, etc. will depreciate during the year ending 31st Dec., 1923
NET TOTAL	1,880	—	—	

General Declaration.

I declare that in the foregoing statement I have given a full and true Return of the whole of the income chargeable upon me under Schedule D, estimated to the best of my judgment and belief, according to the provisions of the Income Tax

Acts. I desire to be assessed by the District Commissioners

Given under my hand this 10th day of May 1923.

Benjamin Jones Signature.

7 Main Street, Barchester Business Address.

5 Lorne Road, Barchester Private Residence.

Note.—A woman must state after her signature whether Married, Widow, or Spinster.

STATE WHETHER YOU MAKE THE RETURN—

1. On your own behalf; or
2. As Trustee, Agent, Receiver, Factor, etc., and for whom. } On own behalf

Section D.**RETURN OF TOTAL INCOME—TO BE MADE BY EVERY INDIVIDUAL CLAIMING ANY ALLOWANCE, DEDUCTION, OR REDUCED RATE OF TAX.**

(See Notes 11 to 13, 20 and 21.)

The Claimant must set forth EVERY source of his income with the amount derived from each source, whether returned elsewhere for assessment or not, whether tax has been paid on it or not, and notwithstanding that the income may have been received "free of tax" or "tax compounded." If there is not sufficient room to set out the income in full hereon, particulars may be given on a separate sheet and the totals brought to this page.

The word "None" should be written in any of the spaces (a) to (f) under the heading of which the claimant has no income.

No. 1.—Particulars of Income.				Amount.		
				£	s.	d.
(a) From Trade, Profession, or Vocation— <i>Motor Engineer</i>			£1,500, less Wear and Tear, £20	1,480	—	—
(b) From any Public Office or any Employment not entered above. (Name and Address of Employer to be stated)— <i>None</i>						
(c) From Property, including the annual value of any property in the claimant's own occupation belonging to himself or his wife (Precise addresses to be stated)— <i>No. 1 Graham Road, Barchester</i> <i>No. 5 Lorne Road, Barchester</i> <i>No. 7 Main Street, Barchester</i>				30	—	—
				40	—	—
				150	—	—
(d) From the Occupation of Land (Situation to be stated)— <i>None</i>						
(e) From Dividends, Interest, Annuities, Dominion and Foreign Securities and Possessions, Pensions (other than Wounds, Disablement or Disability Pensions), and any income not entered elsewhere on this page, viz.— (i) Income subjected to United Kingdom Income Tax before receipt, or received "tax compounded." (Full particulars to be given. If none, write "None")— <i>Barchester Electricity Co., Ltd. Shares. Gross dividend</i> (ii) Income not subjected to United Kingdom Income Tax before receipt. (Full particulars to be given. If none, write "None")— N.B.—In the case of Bank Interest, Dividends or Interest on War Loan Stock, National War Bonds and Exchequer Bonds, Dividends or Interest on Post Office issues of Government Securities, Discount on Treasury Bills, or other dividends or interest arising in the United Kingdom, not subjected to tax before receipt, the amounts to be entered are the amounts arising in the preceding year, viz., the year ended 5th April, 1923. <i>5% National War Bonds</i> <i>5% Japanese Loan</i> <i>Share of Profits in Cape Town business</i> <i>As on page 2</i>			20	—	—	
				50	—	—
				150	—	—
				200	—	—
(f) Wife's Income, if not included above (giving full particulars and stating whether subjected to United Kingdom Income Tax before receipt or not. If included above, it should be so stated. If none, write "None")— <i>None</i>						
			Total	2,120	—	—
No. 2.—Particulars of Charges on Income.						
If there are no Charges write "None." It is not sufficient to leave this space blank. (Life Assurance Premiums should not be entered here, but in Section K on page 4.)				Annual amount payable (gross amount before deduction of tax).		
				£	s.	d.
Ground Rent on	<i>1 Graham Road, Barchester</i>	payable to	<i>J. Jones, 21 Sydney Road, Barchester</i>	5	—	—
" " "	<i>5 Lorne Road, Barchester</i>	"	<i>Do.</i>	6	—	—
Interest on Mortgage or Loan— £1,000 at 5% on	<i>7 Main Street, Barchester</i>	payable to	<i>S. Smith, The Grange, Barchester</i>	50	—	—
" " "	"	"	"			
Annuities, payable to						
Patent Royalties, payable to						
Other Annual Charges (if any), viz.						
			Total Charges	61	—	—
Total Amount of Income FROM ALL SOURCES less Charges				2,059	—	—

I declare that the above statement contains a full, just, and true account and return of the **Whole of my Income from every source whatsoever** for the year ending the 5th day of April, 1924, estimated according to the provisions of the Income Tax Acts, and I therefore claim the relief to which I am entitled in virtue of the facts as so stated.

Given under my hand this *10th* day of *May*, 1923.

Signed *Benjamin Jones*
Private Residence *5 Lorne Road, Barchester*

Note.—A woman must state after her signature whether *Married, Widow, or Spinster*.

Where repayment of tax has been made on account of excess cost of repairs and maintenance of property, etc., a deduction is also made for super tax purposes.

In the case of a partnership it is necessary to adjust such items as partner's salaries and interest on capital, before allocating the profits to the individual partners.

For income tax purposes items which have borne tax, such as premises owned by the firm and dividends received, have been deducted from the profits, but they must be added back to the profits for super tax. On the other hand, ground rents, interest on loans, etc., paid by the firm have been added to the profits (seeing that tax is deducted from the payment), but for super tax purposes they are deducted from the profits, the object being to find the net income from all sources in relation to the partnership.

Limited Companies and Super Tax.

Until the passing of the Finance Act, 1922, members of a limited company had a decided advantage over members of a partnership in relation to super tax. The private trader paid income tax and super tax on the whole of his profits, even though he left a proportion in the business. A limited company paid income tax on the whole of its profits whether distributed as dividends or not, but super tax was paid by the individual members only on the amounts actually received as dividend. A limited company had in this way an opportunity of creating reserves of profit and eventually disposing of the reserve by issuing bonus shares which were not assessable to super tax.

Numerous partnerships were turned into private limited companies with this object in view, but in order to prevent the avoidance of tax in this manner, the Finance Act, 1922, makes provision for the taxing of certain private limited companies.

If the commissioners consider that any private limited company registered after 5th April, 1914, has not, within a reasonable time after the end of any period ending after 5th April, 1922, distributed a reasonable portion of its profits, they may treat the undistributed profits as having been received by the members of the company.

The directors of a company may make a statutory declaration, certified by the auditor—if a member of an incorporated society of accountants—stating the amount they propose to distribute, and that the balance is a reasonable amount to retain, having regard to the requirements of the company.

If the commissioners are satisfied, no further action will be taken by them.

These provisions come into force for the super tax year 1923/24.

CHAPTER IX

REPAYMENT CLAIMS

If a taxpayer has been overtaxed he should make a claim for repayment of the excess; generally, claims are admitted if made within six years of the end of the year of assessment. In special cases—to which attention has already been drawn—the time allowed is not so long.

The taxpayer should apply to the local inspector of taxes for form No. 40 which contains full instructions, but in case of difficulty the inspector is always willing to render assistance; p. 1 provides space for the name, address, occupation, etc., of the claimant, p. 2 for particulars of income and any charges against the income, and on p. 3 the taxpayer must make a claim for any of the allowances to which he may be entitled.

The Revenue requires proof that tax has been paid, and in the case of dividends from companies, where tax has been deducted, it is usual to forward the voucher or "top half" of the dividend warrant. If the "top half" has been lost the secretary of the company paying the dividend will supply a certificate to the effect that tax has been deducted and has been, or will be, paid to the Revenue. Where tax has actually been paid by the taxpayer the collector's receipt is required. Where tax has been deducted from ground rent or mortgage interest, the claimant should get the person paying the interest, etc., to complete a certificate (to be obtained from the inspector of taxes) to the effect that tax has been deducted and will be paid to the Revenue. It might be mentioned in passing that interest to building societies is generally paid in full, and the society is then called upon to pay the tax.

A dividend is considered as falling into the fiscal year covered by the date to which it accrued due; i.e. half-year's dividend to June, 1923, paid 15th July, 1923.

Although half of this dividend accrued in the year 1922/23 (January to March) it is due for repayment for the year 1923/24.

The actual date of the payment of the dividend is immaterial.

Dividends from Limited Companies.

In the case of dividends it is usual for companies to deduct tax at the full standard rate (at present 4s. 6d.), and it is then left to the taxpayer to recover any amount overpaid.

It will be remembered that a person is entitled to an allowance of £135, for a wife £90, for children £36 and £27, and various other allowances; beyond these the next £225 is taxed at 2s. 3d. in the £ and the balance at 4s. 6d. in the £, so that if a person's whole income is taxed at the source at 4s. 6d. in the £, he is entitled to reclaim 4s. 6d. in the £ in respect of the allowances and 2s. 3d. in the £ on the next £225.

Section A**DECLARATION OF INCOME.**

I declare that the following is a true account of my income from **every source**, whether taxed or not, for the year to 5th April, 1923, and that I was resident in the United Kingdom for that period. I therefore claim to be repaid the sum of £5 6s. 1d.

Date 15th August, 1923

Signature Samuel Jones

The Claimant must set forth every source of his Income, with the amount derived from each source for the year, whether Tax has been paid on it or not, and notwithstanding that it may have been received "Free of Tax" or "Tax Compounded."

NOTE.—Any untaxed Bank Interest, or War Loan or other Interest, whether received or credited, must be included in this statement (see Instruction 2 on page 4 as to the amount to be inserted). Accumulated interest on "National (War) Savings Certificates" is not taxable, and should be excluded.

If you were a married man, you must include the income of your wife from all sources, and must also complete Sections B and H opposite. For other information as to the Particulars and Vouchers required, see Instruction 2 on page 4.

No. 1.—Source of Income.		Amount of Income before deduction of tax (full amount for the year to be stated.			Amount of Income Tax paid on, deducted from each source of Income.		
N.B.—In the case of earned income, the gross amount assessed should be entered. If there is no assessment, the full amount of the income from this source should be entered.		£	s.	d.	£	s.	d.
Commission as Manufacturer's Agent, 127 Bank St., E.C.		500	—	—	16	17	6
Dividends London, Joint City Midland Bank, Ltd.—July, 1922 (5s. 6d. in £)		4	10	—	1	4	9
Jan., 1923 (5s. in £)		4	10	—	1	2	6
House—36 Rosedale Avenue, Twickenham		40	—	—	10	—	—
Total Amount of Income and Income Tax thereon		549	—	—	29	4	9
No. 2.—Particulars of Charges on Income, such as Ground Rent, Annual Interes , etc. (See Instruction 3 on page 4.)							
If there be no such charges, insert "None." It is not sufficient to leave this space blank.							
Nature of the Charge.	Name and address of person to whom payable.	£	s.	d.			
(a) Ground Rent	Jas. Brown, 153 High St., Denham	7	—	—			
(b) Interest on Mortgage or Loan :							
£ at %							
£ at %							
(c) Other Annual Charges							
Total Charges and Income Tax thereon, if any (to be deducted from the totals shown in No. 1). £		7	—	—	1	15	—
Total Amount of Income less Charges, and amount of Income Tax thereon		542	—	—	27	9	9

If there be not sufficient room on this page to set out the whole of the particulars, a separate sheet may also be used, but the total of the amounts entered thereon should be brought back to this page and included in the statement of total income.

The Declaration at the top of this page must in every case be duly signed.

The gross income of 5s. per share (£112 10s.) has thus suffered tax at the rate of 4s. 6d. in the £.

In the following example the taxpayer's appropriate half-rate of tax is 1s. 6d., so that he is not entitled to the full 2s. granted to the company. The excess of 6d. in the £ on £112 10s. is adjusted on the first £225 of taxable income—

Total Income—	£	s.	d.	Tax Payable—	£	s.	d.
Earned income .	500	—	—	£225 @ 2/3 .	25	6	3
Less 10% .	50	—	—	£112-10 @ 4/6	25	6	3
Investment income .	112	10	—				
	562	10	—				
Less allowances, self and wife .	225	—	—				
Taxable income	£337	10	—	= 3/- in the £	£50	12	6

The tax payable is adjusted as follows—

	£	s.	d.		£	s.	d.
Dominion tax paid	112	10	—	@ 2/-	11	5	—
United Kingdom—							
Tax deducted	112	10	—	@ 2/6	14	1	3
Tax payable	200	—	—	@ 2/3	22	10	0
Tax payable	25	—	—	@ 4/6	5	12	6
£50-12-6 plus £2-16-3 (£112-10 @ 6d.)					£53	8	9

EXAMPLE. A. Brown, who is single, has an income of £360 from investments, £100 of which is from a company whose profits have borne Dominion income tax at 2s. in the £.

His taxable income is £225 (£360 less his personal allowance of £135) and the tax payable is £25 6s. 3d., giving an appropriate rate of 2s. 3d. in the £. The company has received relief at 2s. in the £ and must pass this on to the shareholder, but as Brown's rate of tax is 2s. 3d., he is entitled to relief at 1s. 1½d. in the £ only, against the 2s. in the £ granted through the company. The dividend warrant would read—

400 shares @ 5s. per share under deduction of Dominion income tax @ 2s. in £	s. d.	£ s. d.
Less United Kingdom income tax	@ 4 6 in £	90 — —
„ Dominion income tax relief	@ 2 — „	
Tax on gross amount of 5s. per share @ 2 6 „		12 10 —
Net dividend		£77 10 —

He has been allowed excess relief to the extent of 10½d. in the £ on £100 (£4 7s. 6d.) so that his liability to tax is £29 13s. 9d. (£25 6s. 3d. + £4 7s. 6d.). Having suffered tax of £81 he may reclaim £51 6s. 3d., made up as follows—

Tax paid and deducted abroad	£100 @ 2s.	10 — —
„ „ „ here	£100 @ 2s. 6d.	12 10 —
„ „ „ „	£260 @ 4s. 6d.	58 10 —
Total tax paid		81 — —
Total liability to tax		29 13 9
Tax to be reclaimed		£51 6 3

CHAPTER X

CORPORATION PROFITS TAX

THIS form of taxation was imposed by the Finance Act, 1920, and is a charge upon the profits of limited companies registered in or carrying on business in the United Kingdom. Liability commences as from 1st January, 1920, but exemption is granted until 1st January, 1926, to—

(a) Public utility companies, such as gas, water, electricity, tramway, railway, dock, canal, and hydraulic power companies, whose charges and dividends are limited by any Act, and who carry on business wholly in the United Kingdom.

(b) Any building society, or a department of a registered co-operative society having a house building or house purchasing scheme for its members. Associations registered without the word "limited" under the Companies Act, 1908, or societies established solely for the advancement of religion or education, and who are prohibited from distributing profits to members are exempt from 1st January, 1922.

Registered co-operative societies are liable in respect of profits from trading with non-members, but not otherwise.

Computation of Profits.

Subject to the following modifications the method is the same as for income tax purposes—

1. The profits are those of the company's financial year (not an average of three years).

2. No deduction is allowed in respect of the annual value of any premises owned by and used for the purposes of the company, except one-sixth of the gross annual value in the case of mill or factory premises.

3. No deduction will be allowed for remuneration in excess of £1,000 per annum paid to any person having a controlling interest in the company or for royalties or interest on loans paid to such a person.

4. A deduction will be allowed in respect of sums distributed to employees under a profit-sharing scheme.

5. Deductions are allowed in respect of rent, royalties, and interest on money borrowed for the purposes of the company (except permanent loans and debentures).

6. Interest paid in respect of mortgages on the general assets of the company is not allowed, but where not less than one-half of the gross income of a company is derived from rents or the profits of lands and tenements in the United Kingdom, then any mortgage interest paid in respect of the lands or tenements only is allowed.

7. With the profits are to be included all profits arising from land, buildings, etc., forming part of the assets of the company, and all interest,

dividends and other income received from investments (excepting interest from $3\frac{1}{2}$ per cent Conversion Loan and $4\frac{1}{2}$ per cent and $5\frac{1}{2}$ per cent Treasury Bonds, and interest received from a company which is liable to corporation profits tax).

8. No deduction is allowed for corporation profits tax or income tax paid, but for income tax purposes corporation profits tax paid is allowed.

Where a private limited company is liable to super tax any corporation profits tax paid may be reclaimed.

Where a company has a controlling interest in a subsidiary company the profits of the latter may be treated as the profits of the parent company on the application of the parent company.

Special provisions apply to insurance companies.

Tax Payable.

The tax payable is $2\frac{1}{2}$ per cent ($2\frac{1}{2}\%$) on the adjusted profits (after the deduction of the statutory allowance of £500 for each period of twelve months), but it may not exceed 5 per cent (5%) of the adjusted profits after actual payment of interest on permanent loans and debentures issued before 4th August, 1920 (or permanent loans and debentures issued after 4th August, 1920, to replace an equal amount issued before that date), and fixed dividends on preference shares. The 5 per cent restriction does not apply to a foreign company's profits in this country.

For periods before 1st July, 1923, the rates were five per cent (5%) and ten per cent (10%).

PROFIT AND LOSS ADJUSTMENT ACCOUNT

		£		£
To dividends (Smith & Co., Ltd.) .	200		By net profits .	9,400
„ allowance for wear and tear	250		„ debenture interest .	1,200
„ one-sixth of annual value of factory premises .	200		„ depreciation .	300
„ assessable profits	11,050		„ excess directors' fees .	500
			„ property tax .	300
		<u>£11,700</u>		<u>£11,700</u>

STATEMENT OF LIABILITY

Balance of adjusted Profit and Loss Account .	£11,050
Less statutory allowance	500
	<u>£10,550</u>
 2½% on £10,550 = £263 15s.	
Balance of adjusted Profit and Loss Account .	£11,050
Less debenture interest paid	£1,200
„ fixed preference dividend paid	<u>£4,200</u>
	5,400
	<u>£5,650</u>

5% on £5,650 = £282 10s.

Being a British company the tax payable is £263, 15s. not £282 10s. The dividends from Smith & Co., Ltd., which have been included in the Profit and Loss Account, have already borne corporation profits tax. A return is to be made within six months of the end of the company's accounting period, and the tax is payable within two months of the date of assessment.

SECTION 34

The Investment of Profits

By WALTER W. WALL

CHAPTER I

PRELIMINARY CONSIDERATIONS

THE average individual, knowing little about Stock Exchange business, market procedure, and how to buy and sell stocks and shares in the Stock Exchange, is oftentimes afraid to invest because of his ignorance and his fears. Owing to his ignorance he does not know what to invest in, and because of his fears he wonders whether, if he invests in any particular securities, he will be able to get his money back. That is, he wonders whether he will be able to sell the stock he has bought, and restore his principal, should he at any time want the liquid cash for any purpose, either to invest in his business, or to meet pressing debts, or for domestic needs.

This is, of course, a primary consideration. He may invest his money in a security for which there is a narrow market, and may find great difficulty in selling the stock at the moment he wants to. It is necessary, therefore, to know beforehand what kind of a market there is for the security in which the individual invests, so that he may not only feel secure with regard to the steady receipt of the interest upon it, but secure with regard to the possibility of reconverting it into cash at any moment. In other words, an investor must know something about the marketability of the stocks and shares he buys.

Hence, the marketability of a stock is one of the most important matters an investor must consider. It is, perhaps, easy enough to seek advice of various people as to the best kind of stock to buy, but the financial editor and the stock-broker know that investors are greatly nervous about the marketability of a stock, for there are always the uncertainties of the future to think about, and few can lock up their money in securities and feel content to depend for the remainder of their lives upon the interest.

Business men desire to invest their profits in the safest of securities. They desire to augment their income with the interest they receive upon investments, but there may come a time when business will fall off, or a time when they see opportunities of expanding their business. Fresh capital will be needed for this. Their investments may then be regarded as reserve funds. These stocks they may sell and obtain cash for them,

and re-invest the cash in business extension and in the end earn a much larger income therefrom than they would earn if they were content to leave the money invested in stocks or shares.

Investing in Property.

A large number of people, knowing nothing about the merits of a great mass of stocks and shares, and not caring to rely upon the advice of other people, or not knowing anyone qualified to give advice, invest their savings, say, in real property. They buy houses and may thereby in time become fairly large property owners, or they may lend their money on house property.

But in investing in house property they must run the great risk, not only of finding suitable tenants, people who can be relied upon to pay their rent regularly and who will not damage the property, but they must run the risk of competition and of rents falling. They must run the risk, too, of the neighbourhood depreciating the property, and should property depreciate in value, because of the surrounding class of tenant, it will probably be a permanent depreciation. Hence, the marketability of such property may lessen as time goes on. In other words, the difficulty of re-selling such property will increase should the owner at any time want to sell, and if the need for cash is most urgent, he may have to sell at a great sacrifice, and the loss on the property would have to be set against the interest—net rent—he had been receiving.

Therefore, investment in house property is not so easy as it looks. It needs much study, though not so much study as the study of investments, but the risks are great. To study the merits of varied investments is quite impossible for the average man, for he has not the means of studying them, and he certainly has not the time. Even the stock-broker has not the time, for he has to devote his time to his ordinary business, and he does not receive the many thousands of reports of public companies that are issued in the course of a year.

Reports of Public Companies.

The banker and the solicitor labour under a like disability. They cannot receive and study these thousands of reports sent out annually by companies to their shareholders, for such reports are not sent out indiscriminately. Hence, they

have not the necessary material for weighing the merits of investments; and even if they had the material they have not the time, for they have their own peculiar businesses to attend to, and these they cannot neglect. Hence, they must labour under many disadvantages and disabilities in giving advice to others, and must rely to a large extent upon the opinions they can get from other reliable quarters.

But the reports of public companies are sent

advice respecting individual stocks and shares and, as a rule, it is the best course they can pursue.

CHAPTER II

STOCKS AND SHARES

THERE is a great variety of stock and share. A gilt-edged security, issued by the British Government, is a different security from the ordinary



THICK WIRE DRAWING AT A WIRE MANUFACTORY

to the press, as well as to the individual shareholders in such companies, and hence financial editors and their assistants make it their special business to examine and study these reports and express their views upon the standing and prospects of public companies. They have no other business to attend to, although it may not be possible for one individual to read and criticize every report that is published in a single year for, as already stated, these amount to many thousands. But they have a better opportunity of weighing the merits of particular stocks and shares than others have, and this is why so many thousands of investors throughout the Kingdom write to the financial editors of their favourite organs for

stock of a British railway company, and very different, indeed, from a mining share, or a speculative oil or rubber share. Yet, strangely enough, a large number of people fail to appreciate the difference. They argue that a mining share which gives a yield of 12 or 15 per cent, or an oil share which gives 10 per cent, is as safe as a Government security which yields no more than 5 per cent. Why, therefore, buy a Government stock, which gives no more than 5 per cent, rather than a mining share, which will give the high return of 12 or 15 per cent?

Mining Shares.

The difference is fundamental. The one is a

first-class security, the other is a speculation. A mine does not last for ever. The gold in a mine must get exhausted sooner or later, and the more taken out in the course of a year the sooner will it get exhausted. Hence, it is not a perpetual investment. It is a wasting asset, and no one can foresee whether the gold contents of a mine will get richer or poorer as time goes on before being actually exhausted. Hence, the profits earned by any mine must fluctuate from year to year, and dividends must vary accordingly, and hence the price of such a share must vary in the market from time to time, not only in accordance with fluctuating profits and dividends, but in accordance with the capricious speculative demand for such shares. Hence, great risks must be faced by those who invest in mining shares which may look attractive because of their high yields. This great uncertainty about the future is the reason for the high yield, for the uncertainty affects the demand for such shares and, therefore, their marketability. Moreover, because one invests in a wasting asset, something must be set aside out of the dividend each year for the eventual restoration of the principal. That is to say, provision must be made for amortization.

If a man invests £500 in a mining share and the mine becomes exhausted and the company ceases to exist, he does not get this £500 back from the company. There is no obligation on the part of the company to repay the principal. He has not lent the company the money, but has purchased the shares in the market from another individual. Therefore, he loses the principal, unless he is fortunate enough to resell the shares in the market to someone else for the same price that he paid for them, and in that case the other person loses the principal. Hence, the purchaser of a mining share must run the risk of being able to resell at a profit, or without a loss, or he must make provision each year for the restoration of the principal by deducting something from his income and reinvesting it. This deduction, therefore, lessens the net yield he will get from his so-called investment in a mining share.

Wasting Properties.

Precisely the same considerations apply to rubber and oil and nitrate shares. All these are wasting assets. Like gold, the oil in a particular property must become exhausted in course of time, and the buyer of an oil share in a particular company must face the risk of the oil lasting for some years, and so enable him to put by sufficient each year to restore the amount he originally invested therein. He may be fortunate, or he may be unfortunate. He may be told that he can put his money in an oil share that will return him 20 per cent for a year or two, or perhaps longer, but then he may suddenly get nothing

at all and find himself in the possession of worthless shares, and imagine that he has been defrauded by the company.

But he has not been defrauded by the company. He has been misled by his own greed, ignorance, or misjudgment, and has no one to blame but himself. Oil shares, like mining shares, must necessarily be speculations, and they who buy such shares must take the risks of nature's uncertainties. This is why such shares are the chief media of speculation and gambling in the Stock Exchange, and why the fluctuations in their market prices are so frequent and wide, and to the uninitiated, so bewildering and perplexing.

The ordinary shares of speculative concerns like mining, oil or rubber companies are not investments and, therefore, the man who is not wealthy and who desires to invest his money safely, should not buy these. Wealthy men may like to speculate in them, on the chance of making money by selling and buying in the market, but men of moderate means cannot afford to run these risks.

Debentures.

It is quite different, however, with debentures in such companies. Considerably less risk is attached to these. The interest on debentures is fixed and, as a rule, is somewhat higher than the interest offered on debentures of other concerns of a much less risky character. These debentures may be either perpetual or redeemable, and they have, of course, the security of assets possessed by the companies. But even the debentures of mining companies are much less safe than those of railway and industrial concerns, looking to the highly speculative character of the mining industry, for even the interest on them may not be secure in certain eventualities, when a company, for instance, has not been working at a profit for some time and there is little chance of its doing so. In such cases the security of the debentures may be worth little.

This being so, the debentures of mining companies had best be left alone by the small investor, who cannot afford to run the least risk. The next risky debentures are those of oil, rubber and nitrate companies, whose enterprises are also of a highly speculative character. The preference shares of such concerns are less risky than ordinary shares, but much more risky than debentures. The dividend offered on such shares is generally higher than the dividend offered by enterprises of a more reliable character, but this is in order to attract people to buy them, for many are willing to face greater risks for the sake of additional interest.

The sounder the security the less is the interest offered. This is because the credit of the borrower is higher and he can borrow more cheaply than others. He can give the lender greater security.

The lender gains in peace of mind, and gains in the higher marketability of his investments. Both are highly valuable considerations.

CHAPTER III

THE STOCK EXCHANGE ARTICLE

In the Stock Exchange article in the newspaper the City Editor deals, first, with the soundest market, and finishes with the least sound—the speculative markets. The soundest securities are those of the British Government. They are regarded as the soundest because the security behind them is the assets of the nation. The Empire must fall before that security can fall, and if that security should disappear, what would be the worth of railway or any other investments? How can the security disappear? It could disappear in the case of a war in which Great Britain was conquered by some ruthless enemy, and in the case of a revolution where the reins of government are seized by the Bolshevik type who would pay no regard, perhaps, to sanctity of contract, and no regard to credit, but who would destroy private property and private wealth. A war in which the nation would be defeated, and a revolution are, of course, both conceivable, but in that case the man who invested in any other kind of security or in any other enterprise would be no better off than he who invested in Government stocks, for all alike would have to risk ruin.

The Risks.

These, then, are the greatest risks to be faced. The contract between a Government and its creditors is considered almost sacred. The British Government could not risk breaking that contract, for it would at the same moment destroy its credit, and to destroy its credit would be suicidal. It would in all probability be followed by financial disaster and widespread ruin and panic, for not only would individual investors be affected, but all the banks, insurance societies and other financial institutions would be affected, they being large investors in British Government securities.

Prices would slump in the Stock Exchange. The market value of such securities would naturally fall, for there would be no demand for them and, therefore, no market for them. All holders would want to sell and there would be no buyers, and the result would be a panic. For what would be safe in a civilized country whose credit had been destroyed? No one would lend to the Government after such a disaster.

British Government Securities.

There are certain extreme elements in the country who do preach the repudiation of Government debt, but they evidently have no conception

of the disaster that would follow, and how the working classes themselves would suffer through the widespread ruin of industry. For the total destruction—it would involve this—of hundreds of millions worth of capital would result in the closing down of factories and workshops wholesale, for there would be no money to keep them going. The demand could not come from a ruined populace and the banks would probably find so great a run on them that they would have to close their doors and make the ruin complete. The ignorant, moved by malice, and not by knowledge, have not the imagination to picture the consequences of the destruction of national credit.

When an individual tradesman loses his credit and can borrow no money to enable him to get out of his financial embarrassments, he is declared a bankrupt; and precisely the same thing would happen to a civilized government that deliberately repudiated its obligations and destroyed its credit. It would become bankrupt, and there could be no prosperity for the working classes in a bankrupt nation.

This is insisted upon because many prudent people do actually fear investing their money in Government securities, because they fear the repudiation of debt and the destruction of Government debt in certain circumstances, not perceiving that in such circumstances the value of other investments would be seriously affected, if not destroyed, simultaneously.

But, short of these, the security and the interest are absolutely safe. Nothing whatever is to be gained in the way of security by investing in anything else, for the ruin of the British Empire would render other investments valueless.

The securities of the British Government may be divided into two distinct classes—the redeemable and the non-redeemable, or perpetual. The latter are redeemable, in a way, but only at the option of the Government—an option that is not likely to be exercised.

Non-redeemable Securities.

The two most popular non-redeemable securities are Consols and Local Loans, the interest on the former being $2\frac{1}{2}$ per cent, and on the latter 3 per cent. But owing to the war, and the issue of loans giving a much higher rate of interest, these pre-war stocks greatly depreciated in value, because investors would naturally not buy them at a high price, when they could buy other Government stocks giving a much higher yield. They had to fall in value, therefore, and become cheaper before they could compete with the newer securities.

Redeemable and Irredeemable Stocks.

Consols and Local Loans are quoted at prices a long way from par—that is, from £100—and,

therefore, no Government is likely to offer the holder £100 for such stocks when it could purchase them in the market at the prices mentioned. If their prices rose beyond par it would be different, but even in that case there is less likelihood of repaying them now than there was at any time, because the Government will, in the coming years, have to face the problem of redeeming many other loans it must redeem according to contract.

the long-dated and the short-dated. The 5 per cent War Loan, the most popular of these securities, was originally issued at 95 per cent, and the Government has the option of redeeming the loan at par in 1929, or after, but in must it any case, according to contract, redeem it at par in 1947.

Whether the option will be exercised in 1929 it is impossible even for the Government to foreknow. It will all depend upon general circumstances



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Some people choose irredeemable stocks, like Consols, Local Loans, Irish Land Stock, and so on, because they are considered to stand the better chance in the course of years of appreciating in market value and, therefore, of being resaleable at a bigger profit, if the investor should desire to resell, while the more they appreciate in value, the wealthier one must become through the higher value of these possessions, which may be regarded as an individual's wealth-assets.

Redeemable securities may be divided into two categories, described in the Stock Exchange as

in that year, which cannot be foreseen. But the buyer of this stock must take the chance of the loan being repaid at £100 in that year, and this being so, the price cannot rise in the market much above par, because they who buy much above par would stand the chance of losing something if the Government paid off at par in a few years' time. This is the disadvantage attaching to similar securities. They cannot rise in market value to the same degree as irredeemable securities, for they must keep in view the redemption value.

Short-Dated and Long-Dated Loans.

Short-dated securities are those the borrower has contracted to redeem in three, five, or more years, at a certain price, without having the option of putting off the date of redemption to a further year.

The National War Bonds that were issued by the Government during the war, come in this category, and hence they appeal to those people who wish to invest their money for a few years only, when they automatically become redeemable, and therefore they keep close to their redemption price, as a rule.

One reason why the 5 per cent War Loan is the most popular security is because there is a large mass of it in existence, and it is widely held, and because the interest is paid to the holder of the registered stock free of income tax and, therefore, the income tax payer is freed from the trouble of claiming any repayment of tax due to him when it is deducted in full on other investments before he receives his interest. But he must include the interest he receives on the 5 per cent War Loan in making his income tax return. With the exception of some of the National War Bonds, income tax on Government stocks is deducted at the source, but in this respect Government securities are no different from other securities liable to income tax deduction, and where the taxpayer is not liable for the full amount of the income tax he can always claim repayment.

The 3½ per cent Conversion Loan is practically an irredeemable security, for it is not thought likely that the Government will ever exercise its option to redeem the stock in 1961 or afterwards. This loan is preferred by people who think it has the greatest chance of capital appreciation in years to come. If they buy at 76, say, they hope the price may rise in the course of years to 90, if there are no more wars, and if the credit of the nation is allowed gradually to appreciate. Purchased at 76, or thereabouts, the yield is comparatively high, and if in ten years' time the price rises several points, the holder will be the richer through the higher market value of his possessions, and if he sold he would make a big profit on the price at which he originally bought.

Many buy these irredeemable stocks to bequeath to their children, who may reap the greater advantage from capital appreciation.

The 4 per cent Funding Loan is a long-dated security. It is not redeemable till 1990, when it must be repaid at par, but the Government has the option of repaying the loan at par in 1960. The 4 per cent Victory Bonds are redeemable by annual drawings at par, determined by lot, and many invest in these on the chance of their bonds being early paid off at par, in which case they would get a handsome premium.

Registered Stock and Bearer Bonds.

But the security behind all Government stocks is the same, and there is nothing superior to them in the way of security, and this is why they are described as "gilt-edged" investments. There is a wider and freer market for these than for other securities, and hence they can always be sold in the market at practically a moment's notice.

These stocks are of the inscribed or registered variety, or are bonds to bearer. The small investor would be well advised not to invest in bearer bonds. In their case there is the risk of loss by robbery or fire or otherwise, and once lost the likelihood of restoration is remote, for there is no proof of individual ownership. In this respect they are like a Treasury note, or a cheque to bearer. If stolen, the thief is the possessor.

But in the case of inscribed or registered stock there is no document to lose or to be destroyed. The proof of individual ownership is in the books of the Bank of England, and these must be destroyed before the identity of ownership can be destroyed. There are no certificates to lock up, and this is a great advantage to those who have no facilities for keeping certificates. Moreover, inscribed or registered stocks have a better market than bearer bonds, because there is a much greater demand for such stocks. Bearer bonds are generally bought by the great financial institutions and corporations who find them more convenient than inscribed stocks.

Colonial Government Stocks.

Next to Government securities are Colonial Government stocks, that is, the securities of Great Britain beyond the seas. These come in the gilt-edged category and are sound investments, with a ready market for them. As a general thing they give a higher yield than our own Government stocks, because the credit of our Colonial Governments is not supposed to stand so high as the credit of the Imperial Government, the security not being so good and hence a little more risk is attached to them. By higher yield is meant that they not only offer a higher interest to borrowers in order to tempt them to lend, but the stocks do not stand so high in market value. They can also be purchased as inscribed, or registered stock, or in bonds to bearer, but in their case the books are generally kept by one of the big banks who are bankers to the Colonial Government issuing the loan.

But the modest investor need not hesitate to invest his profits or savings in the stocks issued by Colonial Governments, and would do well, for instance, to mix them, for by mixing them he gets a little more income than if he confined his investments purely to Imperial Government stocks.

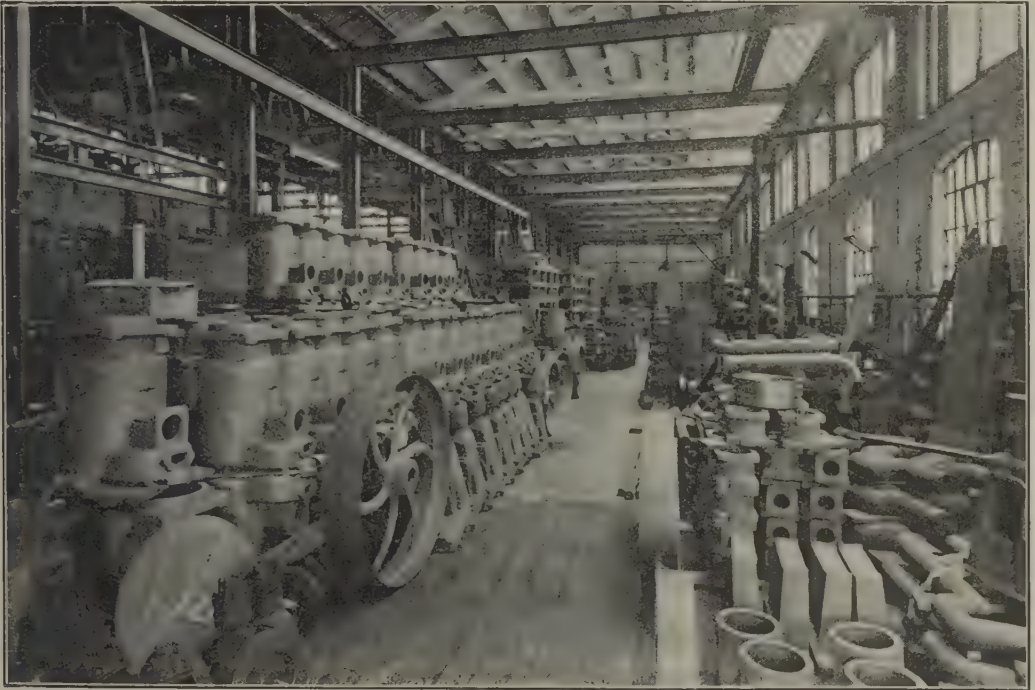
Corporation Securities.

Next come the stocks of the various corporations, or municipalities, of Great Britain. These are valued differently, according to the size, status, and wealth of the corporation issuing the loan, and the stocks are secured on the revenues and assets of the individual corporation. In other words, the ratepayer, together with revenue-yielding assets, has to find the money for the

lest he buy them at too dear a price, or lest the redemption date should not suit his requirements. But as regards security and the safety of the interest there is really little to choose between them, for no corporation dares risk destroying its credit by failing to meet interest at due date.

Foreign Government Stocks.

The large number of foreign Government stocks, the majority issued before the war, are next dealt



Photo

Kewleys, Ltd.

A STORES DEPARTMENT
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payment of interest on the loan and also for its redemption where redemption is compulsory. A great number of stocks issued before the war were irredeemable, for many corporations have the option of redeeming them, an option they are less likely to exercise in these days than in the pre-war period. But since the Armistice, a large number of municipalities have issued what are known as Housing Bonds, and these are practically all redeemable stocks, being compulsorily repayable at different dates, and such loans were issued primarily with the object of raising funds with which to build houses. Being redeemable the investor, before buying them, must find out on what date, and at what price they are redeemable,

with in the Stock Exchange article. They are not so popular nowadays as they were prior to 1914, largely because there is a greater mass of purely British securities in existence, and because rather less confidence is placed in some of the countries in recent years. Mexico, for instance, has been torn by constant revolution, and there have been political and other upheavals in some of the South American Republics, while all know what has happened on the Continent and how the conditions of some of the countries affect the values of their securities. Foreign bonds, therefore, Government and otherwise, have become less attractive to the average investor by reason of the greater risks attached thereto, risks in the

shape of possibility of default in the payment of interest. The investor of moderate means, therefore, would be better advised to pass them by when there are so many sounder stocks to purchase.

British Railway Stocks.

The next important market is that for British railway securities. In the Stock Exchange article it is the market for the ordinary and deferred stocks and not the prior-charge stocks that is chiefly dealt with and in which the conditions are described from day to day. Owing to the new amalgamation, or grouping system, the market is a greatly smaller one now than it was prior to 1923, a great number of stocks having ceased to exist. The ordinary and deferred stocks of the railway companies are distinct from what are called the prior-charge stocks. The latter—preference stocks, guaranteed stocks and debentures—are fixed interest-bearing securities. That is to say, the interest paid upon them year by year never varies. But the junior stocks, ordinary and deferred, are mostly variable dividend-paying stocks, the dividends being dependent entirely upon the annual earnings, or profits, and for this reason they are regarded as speculative stocks. Hence, they appeal in large measure to speculators, and that is why there is greater activity in such stocks than in the senior stocks. Future profits and dividends being a matter of uncertainty, they necessarily must be more speculative than the stocks upon which the interest is fixed.

The debentures of the railway companies, which are mostly of the perpetual class, are sound investments. They have first claim, of course, upon earnings and they have good security behind them. Next to them in matter of quality are the guaranteed stocks, and next to them are the preference stocks. The debentures, as a rule, yield less than the guaranteed stocks and the guaranteed stocks less than the preference stocks, because the security of the latter is the less valuable. There is greater risk of a railway company not meeting interest on the preference stocks than on the guaranteed stocks, and greater risk of not paying the interest on the guaranteed than on the debenture stocks, and hence the latter are the safest for the conservative investor to buy.

Speculative and Non-Speculative Railway Stocks.

In the foreign railway market the transactions that are recorded and the movements in prices detailed in the Stock Exchange article refer mainly to the ordinary stocks of the companies, as in the case of British railway companies. These must also be considered speculative stocks, because the dividends that are paid upon them half-yearly and annually are dependent upon the

earnings of the companies, and these earnings vary a great deal year by year. Thus, the ordinary stock of a company like the Buenos Ayres Great Southern Railway may one year receive 6 or 7 per cent, while in the following year the dividend may have to be reduced, or in a very bad year it may be suspended. As it is impossible, therefore, to foresee from year to year what dividend will be paid, the ordinary stock must necessarily be considered speculative and it will appeal only to those who are willing to hazard its speculative chances.

There is, of course, a much more active market for such stocks than there is for the non-speculative stocks, such as the preference stocks, of the same companies. These receive a fixed dividend every year and, therefore, there can be no speculating on the possibilities of their dividends being increased in any year as in the case of ordinary stocks. Hence, the prices of such interest-bearing stocks fluctuate within much narrower limits than the prices of the variable dividend stocks, for the latter are influenced from time to time by theoretical dividend estimates.

For some years now the earnings of the Argentine railway companies have been unfavourably affected by the demands of the railway employees for higher wages, by constant strikes and by changing political conditions, and the dividends on the preference stocks of the companies have not suffered. They have been duly met and this applies also to the interest on the debenture stocks of the same companies.

CHAPTER IV

INDUSTRIAL SHARES AND THEIR VARIETY

THE industrial market in the Stock Exchange comprises many groups of industrial concerns, such groups, for instance, as iron and steel, shipping, nitrate, textile, motor, coal-mining, electric supply and lighting, breweries, banks, telegraphs, insurance shares, drapery, tea, gas, tramway, land, and a great variety of other shares. Oil and rubber shares, though the shares really of industrial concerns, are dealt in in separate markets in the Stock Exchange. Investors generally like to invest in the shares of those companies engaged in the industry of which they themselves have some knowledge, and in which they themselves might be actually engaged, and it is well that this should be so, for with such knowledge they should be the better able to judge of the value of such investments.

For instance, they who know a great deal about the textile industry might prefer to invest in textile shares rather than in tea or motor shares, of which industries they know little or nothing,

and the same applies to those who know a great deal about the shipping or the coal-mining industries. This must not be regarded, of course, as an invariable thing, for investors buy all kinds of industrial shares and it is not wise to put "all one's eggs in one basket." It is better to spread, or mix, one's industrial investments, for one industry might be flourishing while another is suffering from depression.

Banking Shares.

Many investors prefer banking shares, because they have great faith in the banking institutions of the country, and believe they are so wisely and conservatively managed that there is little or no likelihood of banks suffering from periods of depression, more or less long or short, as other industries do. The prosperity of the banking institutions depends in large measure, of course, upon the general prosperity of trade, for they lend more capital when trade is flourishing than when it is depressed. But year by year they manage to keep their profits at a fairly uniform level and the fluctuations in their yearly dividends are not so frequent and so diverse as the dividends distributed by a considerable number of industrial concerns. What they lose in one direction is often counterbalanced by gain in another direction, and because of their highly conservative management and the uniformity of their profits, the shares of the great banking institutions are justifiably regarded as amongst the soundest outside the gilt-edged groups.

Uncalled Liability.

The ordinary shares of the banks are not fixed interest-bearing shares and the dividends paid upon them depend upon the annual profits, but they are less speculative than the ordinary shares of a large number of companies, because their profits can be depended upon for greater uniformity over a number of years. But a great disadvantage with banking shares is that there is a large uncalled liability upon most of them, and this is why many people will not invest in them, because they have a fear that the day might come when they would have to pay this liability. For instance, a bank share may be a £20 share, with only £5 paid up, leaving an uncalled liability of £15 a share. The dividend is paid only on the £5, so that they are to all intents and purposes regarded as £5 shares.

Likelihood of Calling up the Uncalled Liability.

The likelihood of calling up the uncalled liability in the case of British banks is remote. It is considered remote because the failure and insolvency of British banks are considered a practical impossibility. There could be no run upon the great banking institutions of the country

without widespread panic on the part of depositors, and if a panic were to occur that would be considered unreasonable or unjustified, the Government would probably come to the assistance of such banks, by moratorium or otherwise, in order to avert the devastating consequences that would follow panic. Thus, the uncalled liability would be wanted only in case of insolvency in order to protect the depositors, but insolvency on the part of the great banks would be practically tantamount to national ruin, for one bank could not fall alone. The whole banking structure would come down, for though they may be separate institutions and individually independent they are all one in the aggregate banking superstructure, and all are necessary to its preservation as a whole. Moreover, in the event of any such national catastrophe happening, the shareholders of the banks would be unable to find the money to pay up the liability, and even if they could find it it would be insufficient to save an individual bank from ruin in the case of a run proceeding from national panic.

Shares of Insurance Companies.

Next to those of the sound banking institutions the shares of insurance companies are considered the safest investments. Like our banks, our insurance companies are managed on the most conservative and the soundest lines and it is rare, indeed, to hear of a leading insurance company failing, unless it be the result of a deliberate fraud on the part of the board of directors or the management. Many of our insurance companies are old-established, some being considerably over a century old, and they have weathered wars and other catastrophes successfully. Their business is, of course, subject to greater fluctuations than the business of the banks, and their profits, perhaps, vary rather more but, on the whole, their business progresses, because insurance is growing more popular and more necessary to the world in general owing to the great variety of risks that business and individuals have to face.

As education spreads, too, deeper confidence is placed in these insurance companies, especially in the old-established societies, for new companies are springing up which have to establish themselves in the face of keen competition. Competition is, therefore, keener in the insurance than it is in the banking world. But, as a general thing, the dividends that are paid on insurance shares show little variation year by year. They are, therefore, almost constant, and when they vary they often do so in favour of the investor. That is to say, they are more often increased than reduced. Hence, the shares of the old-established insurance companies may be considered fairly safe investments, with a good, free market for them, with limited variations in the market

quotations, and with a fair constancy of good dividends, though not with the constancy of interest payments on the debentures of well-established industrial concerns or of our railway companies.

Trade and Industrial Dividends.

With respect to industrial companies in general their earnings depend, needless to say, upon the trade, and the fluctuations therein, in which they are individually engaged. Trade must necessarily vary from year to year and from period to period, and some people hold the theory that trade moves in cycles. This is a theory that has hardly been demonstrated by actual experience, and it is a theory it is not advisable for the investor seriously to consider or work upon. That is to say, he would probably mislead himself if he were to take it for granted that a lean period in any particular industry will in all certainty be followed by a fat period, and that the profits earned in the latter period, and the dividends paid, will make up for the poor profits and smaller dividends of a lean period. There can be no rule-of-thumb in this matter for helpful guidance, and they who invest in the shares of industrial concerns must be prepared for inconstancy of trade and inconstancy of profits and dividends, as experience in the long years of the past has conclusively proved.

Trade Competition.

Not only must fluctuations in trade be faced, but competition must be faced except in those rare cases where there is virtual monopoly of trade. In these times, however, a monopoly is so rare that there is little chance of investing in one. If an investor were to buy the shares, say, of a large motor manufacturing company, he must run the risks of this concern having to meet powerful competition from similar powerful firms, and from many smaller ones, and he must not count upon profits being constant and dividends being high and invariable.

Prosperity and Depression.

Many industries have been seriously affected by the world depression during recent years and also by the disorganization of the foreign exchanges, so that the investor has difficulty in choosing investments in any particular industry that have been able to escape the effects of this depression and of the depreciation of continental currencies, and likewise the effects of the numerous strikes that have broken out in the country and made bad conditions worse. During the war most of the industries were able to prosper because the Government was the greatest customer, in order to carry on the war to a successful conclusion. Hence, many an industrial concern was able to

distribute large dividends and to build up big reserve funds.

But the world-wide depression has brought stagnation into many a trade and caused a great slump in prices, and this slump in prices has entailed heavy losses. These heavy losses have had to be provided for out of profits, or reserves, or whatever resources individual companies possessed, and dividends have been greatly reduced in numerous cases and these results have inevitably caused the prices of ordinary shares to slump in the Stock Exchange.

Hence, the ordinary shares of industrial concerns are rightly considered speculative, because the dividends they receive are always fluctuating and are always uncertain. Such shares, therefore, cannot be considered sound investments.

CHAPTER V

STOCK EXCHANGE MATTERS

On the Stock Exchange the ordinary shares of industrial concerns are the media of speculation, being gambled in by both the "bulls" and the "bears," and those who buy such shares are often unable to understand why prices advance rapidly for days together and then fall rapidly, for no ostensible reason.

"Bull" and "Bear" Speculators.

Speculators for the rise are called "bulls" and speculators for the fall are called "bears." The "bulls" do not buy stock to hold permanently, as investors do; they merely buy shares in the hope that the prices of these will rise in the market as a result of their speculative demand for them, when they will sell the shares at a higher price than the prices at which they bought and the difference in the prices represents their profit. "Bear" speculators, on the other hand, sell in the market shares they do not possess with the object of forcing down the price of these shares. When they have forced down the price below the figure at which they have sold the shares they can buy them at the lower price, and the difference between the price at which they sold and the price at which they bought represents their profit on the gambling deal.

For instance, suppose "bull" speculators have made up their minds to gamble in textile shares. They immediately bid for textile shares in the market and this bidding, or demand, for such shares naturally causes their prices to rise. The rapidity of the rise will depend, of course, upon the persistence of the demand, the supply of shares, and whether there are many or few sellers of textile shares. Assuming that the state of the market favours them the speculators succeed easily in forcing up prices, and the daily rises are

duly recorded in the price lists that appear in the newspapers. The general public note this and are told in the Stock Exchange article that there is considerable activity in the textile share market and that prices have appreciably risen as a consequence of the persistent demand.

of the account and when the time of settlement comes, when he pays for it if he intends to take it up. But he need not take the stock up if he does not wish to do so, for he may be, not a genuine investor, but a speculator who is speculating for the rise and, therefore, does not really



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Professional Dealers and Operators.

The professionals in the Stock Exchange are the jobbers, also called dealers, jobbers and dealers being interchangeable designations. They are quite distinct from stock-brokers, as will be explained later, and the character of the business they do inevitably makes them speculators.

Fortnightly Accounts and Settlements.

There are what are called fortnightly accounts in the Stock Exchange, and these accounts are settled at the end of each fortnight. A buyer who buys stock at any time during the fortnightly account need not pay for that stock until the end

want the stock, but only wants a profit on the rise.

An Example.

A speculator desires to speculate in, say, Modderfontein gold-mining shares in the Kaffir Circus. He asks his broker to buy, we will assume, 1,000 shares at £5 each. The broker goes into the market and buys them for the account, the buyer to pay for them at the settlement. But the speculator is merely hoping that Modderfonteins will rise, say, to 5½ before the settlement—contango day—comes and if the price does rise to 5½ he has a profit of 10s. a share on 1,000 shares.

He can, therefore, instruct his broker to sell the 1,000 shares at $5\frac{1}{2}$ each and the broker will hand him the difference, less the commission due to himself, and the speculator, therefore, pockets a substantial profit.

If, however, instead of Modderfonteins rising to over 5 they fall to $4\frac{1}{2}$, the speculator is faced with a heavy loss. He then instructs his broker to let him "carry-over" the deal till the next fortnightly settlement without taking up and paying for the shares. This the broker will do for a consideration, and this consideration is called the contango rate, or the continuation rate, or the carry-over rate, for all mean the same thing. The stock has to be paid for by somebody, having been bought and, therefore, someone has to find the money and this is usually the dealer. The money to carry the stock, or shares, may have to be borrowed from a bank or other financial institution and interest has to be paid on the money borrowed, and the charge varies with the kind of security upon which the money is lent and a mining share is nothing like so good a security as a British Government or any other gilt-edged stock.

Contango and Backwardation Rates.

Hence, the contango rate that the speculator has to pay for carrying over a mining share to the next settlement is heavier than it is on a less speculative stock or share, because the interest on the borrowed money is higher. Therefore, a speculator is something like a betting man, who merely backs a share to rise in value and if it falls he is a loser. Should it rise he is a gainer. But, in any case, he is a gambler and not an investor. If a large bull account exists, say, in Modderfonteins, and many are speculating in the shares on the chance of a good rise, this is a potential source of weakness for that market, because eventually the bulls must sell in order to take their profits, and when they sell the price falls, and this is the great risk the public must always face when they are speculating with professionals. They may buy "at the top of the rise" and lose heavily.

A "bear" speculator sells shares he does not possess in the hope that the price will fall during the fortnightly account. He sells, say, 1,000 Modderfonteins at $\pounds 5$. But he does not possess the shares and so cannot deliver them to the broker. But he need not do so until the settlement comes, and so he has several days to wait for the price of Modderfonteins to fall, say, to $4\frac{1}{2}$. If the price falls to $4\frac{1}{2}$ he can buy at $4\frac{1}{2}$, and as he has already sold them at $\pounds 5$ he has a profit of 10s. per share to take when he delivers the shares. But if the price of Modderfonteins rises to $5\frac{1}{2}$ he does not buy at that price, but asks the broker to borrow the shares for him. The broker does so. A fee is charged for this and this is

called a "backwardation" rate. The contango rate, therefore, is the rate paid by the "bull" speculator and the backwardation the rate paid by the "bear" speculator when they carry over, or defer, their speculative commitments, as they are called.

Thus a bear position in a share is a source of strength in a market, because the "bears" may be compelled to buy the shares at last and, hence, they are potential buyers, and when they have to buy their concerted buying, if there is a big "bear" account, sends up the price and the "bears" have to face their losses.

Investors and the Carry-over System.

Investors, especially those of moderate means, need not trouble themselves about the contango system and carry-over facilities. Only those need concern themselves about such facilities who desire to speculate, and those who speculate are not investors. The investor is the man who buys the soundest stock he can in order to get an added income from dividends or interest regularly and, at the same time, feel fairly assured in mind that the values of his investments will not depreciate in the market, so that when he has to sell, or wants to sell, he may not lose heavily. Hence, he puts his stocks in safe keeping and need not worry what the gamblers are doing day by day.

Stock-brokers.

The investor having selected the stock he wishes to buy, whether Government security, railway stock, Colonial Government stock or industrial share, must commission a stock-broker to buy the stock for him. There are two distinct classes of stock-broker, the inside broker and the outside broker. The inside broker is a member of the Stock Exchange and has to obey all the strict rules and regulations of the Stock Exchange. The outside broker is not a member of that institution and is, therefore, a free individual, so far as the Stock Exchange rules and regulations go. The outside broker is the individual who is described as a "bucket-shop keeper." But the outside broker, not having the right of entrance into the Stock Exchange, has to commission a member of the Stock Exchange to buy and sell for him and they divide the commission. It is better, therefore, for the investor to get a member of the Stock Exchange to do his business for him, as he is additionally protected because that individual must conform to the rules and regulations aforesaid.

But as Stock Exchange members are not allowed to advertise it is difficult for a new investor to get into touch with a member of that institution without an introduction, and even then a Stock Exchange member may refuse his commission if he considers it too small and not worth his while. The investor, therefore, who is a

novitiate may be confronted at once with great difficulties, and it is because of this that many employ outside brokers, who advertise extensively and who are generally pleased to do business, great or small.

Buying Stock Through a Bank.

But the investor in employing someone who advertises runs the great risk of placing his business in the hands of the dishonest or the real criminal. There are honest men and dishonest and downright scoundrels, as may be imagined, and here again it is necessary to find someone who can introduce him to an honest individual or firm. All these are big obstacles which the investor has to tackle, and they would not be so great if the members of the Stock Exchange were allowed to advertise. The chief objection against advertising seems to be that it would be *infra dig*. But the concession would undoubtedly be a great boon to the investor.

Fortunately, there is an easier means of overcoming it. If the investor has an account at one of the big banks all he has to do is to ask the manager to buy the stock for him and debit his account with the cost. Thus he is saved all trouble, and the bank thereupon takes all responsibility, and the bank will carry out small commissions as well as big and will both buy and sell.

The banking institutions employ their own stock-brokers who, needless to say, are all members of the Stock Exchange, and these fortunate members in the course of a year get a great business from the banks. But the commission is divided between them and the banks. Hence, the banks are thereby paid for the services they render to their banking customers and the benefit is mutual. The banks are not doing the business merely to oblige a client, or in the interests of philanthropy.

How Stocks are Bought and Sold.

When the broker gets his commission to buy stock he takes the necessary steps forthwith. He goes into the Stock Exchange to the "market" where the stock is bought and sold, for the Stock Exchange is divided into markets, just as in an ordinary provincial market there is a place where butter is sold, another where cheese and bacon are sold, another where poultry is sold, another where meat is sold, and so on. And as a housewife would not go to the seller of butter for a leg of mutton, so the stock-broker who has to buy railway stock, or the 5 per cent War Loan, would not go to the oil or the rubber market to get what he wants.

An investor has made up his mind, let us say, to invest his profits in the 5 per cent War Loan. He tells the manager of his bank that he wants to buy the stock at the cheapest price possible, and the manager hands on these instructions to

the bank's broker. The latter goes into the market where they buy and sell British Government stocks and asks a jobber there the price of 5 per cent War Loan, not telling the jobber whether he wants to buy or sell. The jobber mentions two prices, the price at which he is prepared to buy and the price at which he is prepared to sell, and having once made a price he is bound by the rules of the Stock Exchange to buy or sell as the enquiring broker may determine. If the buying broker is satisfied that it is the best price at which he can buy he buys the stock, and the contract note is duly sent to the bank and by the bank to the customer, and the deal is done.

The Double Quotation.

The higher price quoted by a jobber is the selling price, and the lower price is his buying price. This explains why there is always a double price for stocks and shares and the middle price, which alone is often quoted in the newspapers, is the price between the two. Thus, if the jobber quotes Consols 54½-55, the middle price is 54¾. Hence, when only the middle price is quoted in the press it means that the buyer would have to pay a little higher than that price for the stock, and the seller would receive a little lower price. The difference between the two prices represents the jobber's profit. The more active the market for a particular stock or share is the more closely are prices quoted, and the less active a market is the greater is the difference. In the former case the jobber can always be sure of a big turnover. In the latter case, however, only a small turnover is possible and, hence, he has to lessen his risk by quoting wider prices. Thus, the price of a tea share rarely dealt in might be quoted 1½-2, while an active mining share might be quoted 1½-1¾, or even 1½-1⅝. In the case of a £100 stock, quoted between £300 and £400, there might be as wide a difference as several points, for such stocks frequently move pounds at a time. Thus, Bank of England stock might be quoted 246-250, and Guinness Brewery stock 350-380.

Functions of Stock-broker and Jobber.

The functions of the stock-broker are those entirely of a buying or selling agent. That is to say, all he does is to buy or sell shares for his client and he has to carry out the order of his client. The jobber, or dealer, is the man from whom he buys or to whom he sells. The jobber is the wholesale and retail merchant, as it were, and in market phraseology he "is the market."

Thus, there are jobbers who specialize in Government stocks, others who specialize in Home Railway stocks, and others who specialize in other stocks, and they stand in their various markets

as the buyers and the sellers, and their clients are the brokers and not the public. They do not come directly in touch with the public. They have to buy the stocks or shares that are offered to them after they have made a price, or they have to sell the stock a broker wants to buy after a price has been made. Thus they are continually buying stocks and continually selling them, just as a cheesemonger is continually buying cheese and selling it. The cheesemonger buys at a certain price and retails it to his customer at a higher price, and the difference between the two prices represents his profit.

It is just so with the greengrocer, who buys potatoes from the grower at a certain price and resells them at a higher price to his customers, and so makes a profit and a living out of the difference between the two prices. A Stock Exchange jobber, or dealer, earns a livelihood in the same way, and saves a buyer from having to advertise for a seller of a particular stock and a seller from having to advertise for a buyer.

The "Professionals."

Jobbers, or dealers, are the people who are described in the financial articles as the professionals. This buying and selling being their business it is their profession and, hence, they are also called professional speculators. If they think there is likely to be a demand for any particular shares they will buy such shares in anticipation of such demand and prices will advance. They may continue buying for some time and prices will continue to rise, and the buying may go to such lengths that the press will begin to talk of a boom. If such a movement takes place, say, in the oil market then the papers will begin to talk about a boomlet or boom in the oil market, owing to active professional buying, the professionals being the "bulls." If the public fail to support the movement sufficiently then the professionals cease buying—cease putting stock on their books, as it is described technically—and will sell in order to take their profits and, hence, this is described as a set-back. An upward movement in any market is invariably started by professional dealers in the hope that the public will follow their lead. Sometimes they will "bear" a market; that is to say, they will sell with the object of forcing prices down and then the papers will talk of a slump in prices owing to aggressive "bear" selling.

The professional "bulls" start buying when they are of the opinion that general conditions and circumstances look favourable, and the "bears" start selling when, in their opinions, conditions look favourable for them as, for instance, when the bank rate is raised and money becomes dearer, or when a political crisis occurs, or when something happens to create deep anxiety and unnerve people.

CHAPTER VI

CAPITAL ISSUES OF LIMITED COMPANIES

WHEN investors are invited to subscribe to the capital issue of any company and a prospectus is issued, it is necessary for them critically to examine such prospectus in order to form an idea of the possibilities of the enterprise and of the risks of investing in it that will be faced.

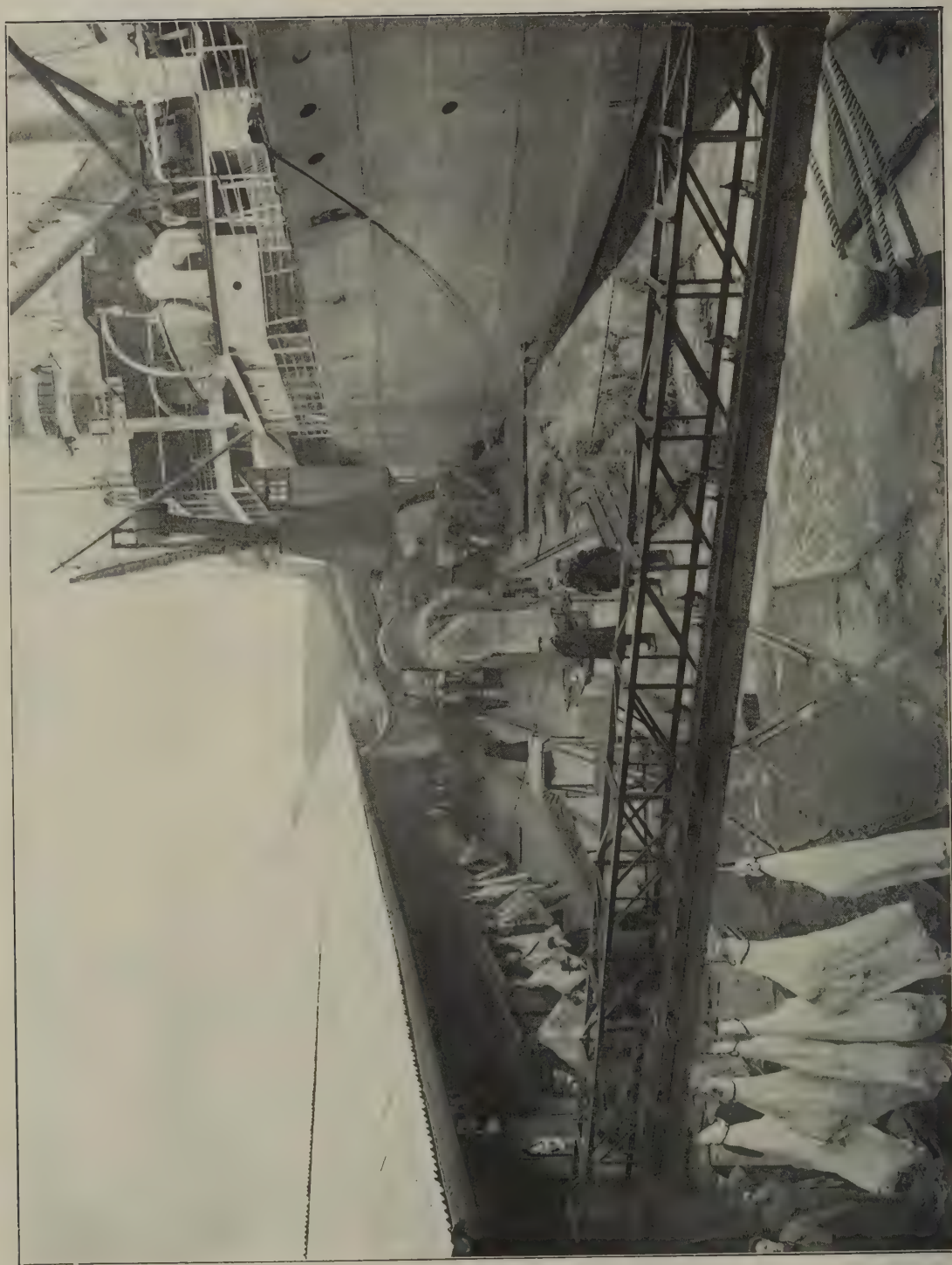
Examining a Prospectus.

If it be an old-established company, with a fairly good record, and it is issuing, say, ordinary shares, this company should give a table in the prospectus recording the annual profits earned over a lengthy period of time, with the dividends that have been paid annually on the ordinary capital, the amounts set aside to reserve and other funds, and the balances carried forward. With these figures before him the investor can judge from what the company has done, what it is possible for it to do in the future and he invests, therefore, with his eyes open.

In prospectuses also the directors or some other people invariably give their estimates of what the future profits are likely to be and these estimates are of some value, but they must not be taken as anything more than estimates, or possibilities. No one can see into the future and estimates are of far less value than actual performances, or results, and it is wiser, therefore, to rely upon actual achievements and risk these achievements being continued. In other words, if the company has been successful over a long period there is great probability of it succeeding in the future if the industry in which it is engaged is an essential industry. The longer a company has been established the less it has to fear from competition, whereas a new concern has to face keen competition, with all the innumerable uncertainties of trade fluctuation.

If these essential figures of profits and dividends, covering several years, are not detailed in a prospectus, but only averages are given, there must be some strong reason for this omission. Averages are nothing like so trustworthy as the detailed figures, and averages always give rise to the suspicion that the detailed figures, if given, would show that the earnings and profits have not been progressive. Hence, promoters rely upon the average investor not being too critical and analytical.

The assets of a company should also be given with as much detail as possible, in order that the investor may be the better able to grasp the financial standing of the company. The greater the detail the more confidence, as a rule, can be placed in the company, but the more the assets



DISCHARGING A CARGO OF IMPORTED MEAT AT THE LONDON DOCKS

are lumped together instead of being segregated the less the confidence, and reasonably so.

How to Test a Company's Standing.

When a company is issuing new capital the investor should be most careful to note what the capital is wanted for. It may be wanted in order to pay off loans which the company has had to borrow from its bankers to tide it over a period of stress until it can issue fresh capital. This is frequently the case. But new capital may be wanted to finance the extension of business; that is to say, to buy fresh plant and to build more factories to cope with the increasing business. This is evidence that the business is growing and flourishing and it should not be cramped for lack of capital and, hence, the capital is not growing beyond the requirements of the business.

But new companies are constantly being floated with the object of buying private businesses as going concerns, and when this is the case the prospectuses should be examined with the greater care. It is more than ever necessary in such cases that the details mentioned above should be given over a long period of years, without averages, and that the assets should also be given in full detail to enable the investor to judge whether too much is being paid for the business, for if too high a price is being paid for it the new company will be handicapped by being over-capitalized. The end of such a concern in 90 per cent of cases can often be foreseen. It may probably mean continuous struggle to make ends meet, with reconstruction ahead, or a drastic writing down of the capital and, perhaps, absolute insolvency.

As regards the assets of a company there should be an independent valuation of these. That is to say, the valuation should be made by a reliable firm of auditors and not by interested parties, the interested parties being the vendors, the promoters or the directors. Interested parties would not be likely to give a low valuation but, on the contrary, would be likely to err in the other direction and value them too highly. An independent valuation is not always given.

A further point of some value is in the terms of underwriting a new issue. The terms of underwriting give some clue to the view held by the underwriters as to the probabilities of the public subscribing to the new issue. If the underwriters think highly of the company, because of its excellent record, they will come to the conclusion that the shareholders of the company and the public will take up the new shares readily and, hence, they will be most eager to underwrite the issue and the competition will affect the underwriting rate, which will be low. But if there be great doubt about the public success of the issue, and the underwriters fear that they may have to take up a large proportion of the issue, then the

underwriting commission will be higher. A commission exceeding 3 per cent is regarded as going to a high rate; 3 per cent and under gives evidence of valuable underwriting opinion.

Underwriting and Preliminary Expenses.

Sometimes an issue will be made that is not underwritten. This may be in some cases because the directors are so sure of the response to it that they consider it unnecessary to underwrite, while in other cases it may be because no one will run the risk of underwriting the issue. The investor must try to form his own conclusion from a study of the prospectus. Care must also be taken to note the amount on which the directors say they will proceed to allotment. If it be on a small amount it leads to the suspicion that the directors are resolved to go to allotment, having made certain that the minimum amount will be subscribed by people other than the public. But in some cases the directors say they will not proceed to allotment unless a considerable part, or even the whole, of the issue is subscribed. This shows *bona fides* and it should strengthen the confidence of an investor in the concern.

The preliminary expenses are another important consideration. If the preliminary expenses are put at a high or exorbitant figure, it should make the investor pause before he invests his money in the undertaking. Therefore, the lower the figure the better, for the company will in the future be the less burdened by having such an unproductive asset in its balance sheet, which must be extinguished out of future profits, and hence keep down dividends, or make dividends impossible for some time. It should be noted how much cash and how much in shares the vendors are taking as purchase consideration of a property or business they are selling. The larger the amount of cash the less faith, it is reasonably assumed, they have in the undertaking, while the larger amount taken in shares or stock the greater the faith. At any rate, these are logical assumptions which will lead no one astray, for the investor in such a case would be well-advised to give himself the benefit of the doubt.

Different Kinds of New Issues.

New issues are of different kinds. An old-established and prosperous company that has been able to pay good dividends on its ordinary capital over a long period of years will have less hesitation in offering ordinary shares to the investing public than a less prosperous undertaking, that has paid irregular dividends or has been compelled to suspend distributions now and again, for the public will have greater confidence in the prospects of the former than in those of the latter. Hence, there will be less risk in subscribing to the new shares. Nevertheless, as the dividends on ordinary

capitals are dependent entirely upon the yearly profits of a concern, the shares must be considered speculative, and investors must not complain if in the future they do not come up to expectations.

Preference Shares.

Preference shares are less speculative because they have the prior claim upon the profits of

dividend on which is entirely dependent upon the profits of each year.

Then there are participating cumulative or non-cumulative preference shares, though they are generally cumulative. This means that while the shares are entitled to a fixed rate of dividend each year, they are likewise entitled to share in the balance of profits up to a specified percentage,



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Sterling Telephone & Electric Co., Ltd.

ASSEMBLY OF TELEPHONE SWITCHBOARDS
At the Factory of the Sterling Telephone & Electric Co., Ltd.

a company. There are two main classes of preference shares, the cumulative and the non-cumulative, and the fixed interest offered on the former is less, as a general rule, than the interest offered on the latter. This is because if the profits are not large enough in any one year to meet the year's full dividend on the cumulative preference shares, the holders of such shares are entitled to the arrears being provided out of the profits of future years before any dividends are paid on the ordinary shares. They have not this right in the case of a non-cumulative share, the

or amount, this percentage, or amount, differing in the practice of companies. Since the Armistice a considerable number of companies have issued participating preference shares, because the promoters think such shares will appeal to the investor much more strongly than the other cumulative preference shares, because investors might like to take the speculative chances of getting a higher dividend in the case of the company's prosperity, and there is no doubt that because of this chance participating preference shares have been more popular. While the holder

can feel a certain amount of assurance that he will receive the fixed dividend, whatever it may be, he can hope that he will get a further 1, 2, or even 3 per cent now and again, while there is the chance of such shares in the case of a successful company having a correspondingly higher value in the market than the less speculative non-participating preference share.

Deferred Shares.

Deferred shares are the most speculative shares, as they participate in the profits, as a rule, only after the other shareholders, including the ordinary, have received their dividends, and such shares cannot be recommended to the conservative and prudent investor who desires to minimize the risks of his investment.

The Capital of a Company.

It will be seen from the previous descriptions of types of shares that all are more or less speculative, the degrees of risk being less in the case of preference shares than in the case of ordinary shares, and less in the case of ordinary than in the case of deferred shares. But these different classes of shares make up, or compose, the capital of a company, though there are some companies whose capitals consist of ordinary shares only. These are comparatively few, however, but in their case the ordinary shares are the less speculative because there is no prior capital on which dividends must be paid.

CHAPTER VII

THE SECURITY OF DEBENTURES

BUT the safest stocks to invest in are debentures. Debentures, however, do not in reality form part of a company's capital. They represent money that is borrowed by a company and, being borrowed, the company is under obligation to repay the loan to its creditors, which is not the case with the share capital. Debentures generally have a charge, or mortgage, on the company's property and the rights of debentures rank ahead of the share capital, both for the interest as it falls due and for the return of the money if the company is wound up. The advantage to a company in issuing debentures is that the money may only be wanted temporarily, like borrowing from a bank, and it can all be returned after a specified term of years and all the profits that may then come from the employment of that capital, in extending the business, will increase the dividends on the ordinary capital.

Interest, not dividend, is paid on debenture stock. This interest depends in part on the credit of the company issuing the debentures, and in part on the general market value of money at the

time the issue is made. If the credit of the company is high and it has exceptionally good security for the debenture loan, it can borrow on debentures at a lower rate of interest than the company that has not so high a credit and not so excellent a security to offer. Hence, the investor in putting his savings or profits into debenture stock, or bonds, must look closely at the nature of the security offered and also at the date of redemption and the price of redemption. Sinking funds are applied as a rule to the redemption of debentures. Debentures run for a period of years, determined by the borrower, and the investor must calculate whether the period will suit his requirements or needs.

Perpetual Debentures.

Some debentures are perpetual. That is to say, they are not redeemable, but the great majority, especially those issued in recent years, are redeemable. Debentures are generally issued in £100 bonds, or stock, and the difference between the two is that a stock is divisible into fractional amounts, while the bonds are not divisible, but are issued as a rule in £50 or £100 bonds. This is their chief objection from the point of view of the investor who has but small sums to invest. And a further objection is that there is not so free a market for debentures as there is for shares, and this being so the date of redemption is an important matter if the investor does not desire to lock up his money for a long period.

Varieties of Debenture Stock.

Then there are first, second, and third debentures. The first debentures have, as they imply, first claim for interest, and the others have second and third claim and, hence, are somewhat more risky than the first. In order to induce investors to take up second or third debentures companies offer a higher rate of interest than they do on the first debentures, this being a consideration for the greater risk holders have to hazard.

As a general rule, a company has two dates of redemption of a debenture, the date when it can redeem the loan if it chooses so to do, and the date when it must redeem. To illustrate this. A company issues a 6 per cent first mortgage debenture stock at 95 per cent, redeemable in 1932-39, at 102 per cent. This means, and the company states so specifically, that it takes power to pay off the debenture in 1932 at 102 per cent on giving certain notice to the debenture holders, sometimes three months and sometimes six months or longer. A company will often take powers to purchase debentures in the open market when they are quoted under a certain price in the market, for by being able to make use of this right it can gradually reduce the debenture debt. But if the debenture stock, in the case of this

hypothetical company, is not paid off in 1932, or in the following years, it must be paid off at the price mentioned in 1939. Interest on debentures is mostly paid each half-year.

CHAPTER VIII

HOW TO EXAMINE A BALANCE SHEET

In selecting investments it is essential for the investor to learn all he possibly can about the financial position of a company and, hence, it is necessary for him to examine as critically as he is able the balance sheet of the concern whose shares he has been advised to buy. If he is already a shareholder in a company he will in the ordinary course of things receive the annual report of the directors and the annual accounts, so that he will be able to examine the position for himself. But if he is not a shareholder and is advised to buy the shares of a particular company he will find it difficult, of course, to get a copy of the balance sheet unless he can get one from a friend or an acquaintance, or from some other source, for the company will not send such documents to other than shareholders and the press.

But the press do not as a rule publish balance sheets, or give their details, for they have not the space for this, except in those cases where articles are devoted to special analyses of particular companies. But the accounts of a vast number of limited liability companies are not so analysed. Hence, the investor who desires to know the financial standing of a company must either endeavour to get the information from some quarter or must refrain from investing in the shares if he refuses to take advice from others, and would prefer to rely upon his own judgment.

Market Prices.

The market prices of shares are influenced by the financial standings of public companies as well as by the dividends they pay. If a company has small reserves or is not allowing sufficient for depreciation, and its assets are obviously inflated, its shares are valued less in the market than the shares of a company that has large reserves, that is allowing amply for depreciation and is carrying forward large balances, although both may be paying the same percentage of dividend on their capitals. The one company may be heading towards reconstruction or a reduction of future dividends, while the other holds out the strong hope of being able to maintain dividends. In the one case the directors may be dividing profits up to the hilt in order solely to keep up dividends, regardless of the future, while in the other case they may divide the profits prudently and look well ahead.

Depreciation.

Perishing assets, such as machinery, which must necessarily depreciate in value with use, and likewise buildings and other fixtures, must in course of time be replaced or renewed. This must not be done out of fresh capital, for that would be inflation of capital, but enough money should be set aside out of the annual profits in order to replace or renew such assets, and from 5 to 10 per cent of their value is regarded as generally sufficient.

This is called making allowance for depreciation, or for the writing down of fixed assets, and it should not be neglected even should it entail temporary reduction of dividend. Leasehold property, being a temporary asset, should be so written down. Goodwill is also an asset that should be gradually written down, for though a company's goodwill might be valuable when it is flourishing, it is wise not to take it for granted that the company will always flourish, and should misfortune overtake it and the business fail, or the company become insolvent, the goodwill will be of no value at all, but the machinery, factories and buildings would have some value in the market and, hence, in the case of liquidation there would be nothing to come from this source for the shareholders. This is why goodwill is described as an intangible asset.

The Liquid Assets.

Then the investor should make a point of examining the liquid assets of a company. These consist of its investments, its cash, and the debts owing to it. Are the investments over-valued? Are they of a character that could be easily realized in the market? The company may state that the investments are valued at cost, and if this means that the investments are valued above their market value the asset is inflated unless ample provision has been made for the depreciation. This should be looked into. Other balance sheets may state that the investments are valued at their market prices at the date of the balance sheet, which is a sounder method than stating "at cost." If they have fallen in value during the period covered by the balance sheet then the investor should see whether the loss has been provided for in the profit and loss account. If they have risen in value no credit should be taken for appreciation, but the investor will know that the appreciation represents what is called a hidden reserve.

The more cash a company can show the stronger is its liquid position, though it is not advisable, of course, to have too much cash unemployed. The debts owing to the company should be compared with the debts the company owes to its creditors, and the one should be set against the other, and if the directors think that some of the debts owing are bad debts they should state what

provision they are making for this, whether ample or otherwise.

Intangible Assets.

The investor should also note whether the assets in a balance sheet are of that intangible character, "preliminary expenses," or the expenses of making a new issue. These are assets that should be extinguished as soon as possible, and the only

liquidation there will be this fund to restore, in part or in whole, the original capital. This would help to restore their principal to the shareholders of the company and save them from providing their own amortization funds.

Reserve Funds.

But a reserve fund is not to be provided for this one purpose. It is a fund to be steadily



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A WELL-APPOINTED OFFICE

Messrs. C. F. Hall & Sons, Ltd.

way of extinguishing them is to devote as large a proportion of the annual profits to this purpose as is possible. The fewer the intangible, or unrealizable, assets there are in a balance sheet the stronger is the financial position of the company.

Profits Set Aside.

Then there is the all-important matter of a reserve fund. Sound finance insists upon a company setting aside out of the profits of each year a certain proportion, in order to build up a reserve fund, and so have a solid fund to provide for all sorts of contingencies. In a way, a reserve fund is a fund that is built up to set against the capital, so that in case the company should go into

accumulated for all sorts of contingencies, bad times being one of these. It can provide for heavy losses in some unexpected direction that have arisen through vagaries of circumstance over which the directors have no control, and for which they are in no wise responsible. If there has been severe depreciation in certain assets, beyond all reasonable calculations, the loss occurred in this direction can be charged to the reserve fund, provided this fund be large enough, but if it is not large enough it can lessen the loss, in which case there should be prudence in paying dividends. These should be sacrificed in some cases. Some companies, however, in addition to building up ordinary reserves, limit the dividends they pay

and build up dividend equalization funds, the object of which in poor years, when profits shrink and dividends would have to be reduced, is to maintain dividends by transferring a portion of the fund to the available balance, and this is quite legitimate and sound.

Investment of Reserve Funds.

Reserve funds ought really to be invested in high-class, good marketable securities, so that they shall always be in a liquid state and the investor, when he looks at the amount of the fund on the liability, or left-hand side, of the balance sheet, should look on the other side to see what real investments stand against it, so that he can tell how much is invested outside the business of the company. Company practice differs very much in this respect. Some directors are most careful in seeing that their reserve funds are invested in the best class of securities. A company, of course, gets an additional income from the interest on such securities, and sometimes this income is put to profits and distributed, and in some cases it is re-invested in order to help increase the reserve fund, but it matters little so long as a company puts a proper amount to reserve. Other companies invest their reserve

funds in their own business, arguing that this saves raising additional capital, and that such money earns more than if it was invested in other securities. Such reserve funds are not liquid. They cannot readily be turned into cash when needed, and if the company becomes insolvent they are the less valuable because invested in the assets of an insolvent concern. Therefore, the investor can place deeper confidence in a company that has a liquid reserve fund than in a company that has a non-liquid fund.

Depreciation Funds.

Some companies have separate depreciation funds and some have not, but write down their assets year by year. One policy may be as sound as another and much depends upon the character of the company's business. During the war many companies capitalized their reserve funds—that is, turned them into capital by giving the shareholders free shares—on the plea that the assets were of greater value than they appeared in the books of the company. Since then assets have greatly depreciated, owing to the universal slump in prices, and this practice has been unsound and unwise, and has brought great trouble upon numerous concerns.

SECTION 35

The Import Department

CHAPTER I

ADVANTAGES OF THE IMPORT TRADE

DESPITE the air of mystery and romance that still, to the outsider, surrounds the shipping trade, there are few useful callings that can more easily be entered in a modest way. Many new ventures entail a heavy capital outlay and a long period of training or apprenticeship, but the functions of an importer can be commenced quite simply and without pretensions, and progress can be gradual. Men of energy and initiative, starting with a single small agency, have, through perseverance and tact, been able to found large and highly successful undertakings. Business houses can be seen to-day in every stage of progress from "one man shows" to wide-spreading companies, and there is no reason why many more live men should not enter the field. It is true that, before venturing into the realms of sea-borne trade, a business man should have practical experience of ordinary home trade transactions and commercial routine. Given such preliminary training, a small trader is quite entitled to attempt to enter the overseas trade. It is a natural avenue of progress for ambitious men.

Characteristics.

Like most branches of activity, importing has its fluctuations. Good and bad times alternate, but, stating the position at its worst, practical experience of importing will never be wasted. If one line is quiet, another will be booming, and there need be no sitting and bemoaning one's fate. Our geographical position, the increasing tendency towards specialization in industry, the gradual raising of the standard of comfort at home and over much of the globe, with the resultant new needs and extended desires, all guarantee that the services of the importer will in the future be required in an ever-increasing degree. Some politicians may not relish this, and, admittedly, the ideal that a country should be self-supporting is a fine one, but business men must deal with conditions as they are and not as they might be. A few figures will briefly clinch the argument, and also will show in what direction the country's imports mainly run.

The total value of goods imported into the

United Kingdom from all parts during the following years was—omitting hundreds throughout—

	1913	1920	1921
Food, drink, and tobacco . . .	295,149	765,807	567,246
Raw materials and articles mainly unmanufactured . . .	269,939	710,355	271,175
Articles wholly or mainly manufactured . . .	201,038	453,439	245,045
Animals, not for food . . .	488	401	393
Parcels Post, non-dutiable goods . . .	2,118	2,643	2,825
TOTAL, in thousands . . .	£768,734	£1,932,648	£1,086,687

To furnish some idea of their respective importance, the comparable statistics for *Exports* may be interjected—

Total Exports. . .	£635,117	£1,557,222	£810,248
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These are official figures, calculated, in the case of imports, on the c.i.f. value returned on the Customs documents. For exports, the f.o.b. values are taken. Value figures are not the most reliable criterion—notice the contrast between 1921 and 1920, caused probably as much by the drop in values as by the decrease in actual tonnage—but, owing to the diverse nature of the articles comprised, no other common denominator can be used.

Raw materials and staple food products form the bulk of this country's imports, though the item for manufactured goods is becoming no mean one. The largest individual totals for 1921 were grain and flour, £138,084,686; and meat, £132,968,634; which figures, with a recollection of war-time troubles, should prove, better than could columns of argument, the vital importance of the import trade to this country.

Qualities Necessary.

The prospective importer will come up against new problems. Foreign exchange, correspondence in foreign languages, the legal principles and practical routine of conveying goods by sea, storing in dock warehouses, and selling by private treaty or through brokers, will need to be studied. General acquaintance with the articles dealt with, and knowledge of the history and customs of the folk from whom they come, will not be amiss. Still, there is nothing presenting insuperable difficulties. The field is not untrodden; pioneer work has been done. Books and "experts" will warn the novice of pitfalls. There are ample opportunities in the import trade, and the qualities

of honesty, energy, persistence, and caution should ensure success. Men of such calibre who take up importing will operate to the advantage both of themselves and of their neighbours.

CHAPTER II

HOW TO GET A FOOTING

AN importer may be either "general" or "special": he may undertake the receipt and disposal of goods of all classes from all parts of the world, or confine himself to handling a limited range of produce from a restricted area. The usual history of a business is that, starting in quite a general way and seeking work of any class, chances are seized to take up agencies, or to develop exclusive markets and become specialists in some staple commodity or in the produce of a group of colonies or a certain area. This is natural, since each trade has its technicalities and no one person can hope to master them all.

Thus, while a prospective importer may have a leaning towards one trade and special facilities for entry thereto, he may need at first to accept work of any class, watching all the time for chances to secure regular agencies, or to follow up likely markets for some particular product.

Securing Agencies.

"All very well, but how do I start?" It is not easy to reply categorically, but openings do arise in many ways. Perusal of the general trade papers and their advertisements may lead to the discovery of an overseas firm anxious to secure a British agent. A manufacturer friend at home may offer a chance of acting as intermediary in the purchase and despatch of his raw material. On the strength of some confidential information or some shrewd surmise, a home trader may be tempted to import a parcel of goods as a speculation, and initial success may lead to the founding of a new branch of the business. An exporter may be offered a consignment of goods in lieu of cash payment, and the advantageous disposal of these may suggest repetition. If funds permit, useful agencies may be secured by personal interviews with overseas shippers. Some men, after a lengthy experience as clerks in the service of importing firms, decide to start for themselves. Such men naturally turn to the trade with which they are acquainted, using their intimate knowledge of customers, market conditions, and sources of supply to gain a good start. Thus, a clerk in the office of a paper importer may, by energy or good fortune, get an offer of the British agency for a certain Baltic mill turning out newsprint or tissues. Should he be confident of his knowledge of prices and outlets in this country for the products of such a mill, he might well take the chance of starting business for himself as a paper importer and mill agent.

Using Trade Papers.

By whatever means the field is entered, one piece of advice cannot fail to be useful. It is to be a diligent reader of the appropriate *trade papers*. Time thus spent is generally well repaid. Whatever product one is concerned with, the trade papers are bound to contain valuable information. News from correspondents as to prospects of new crops, the chances of drought or heavy rainfall, the effect of local labour troubles, quantities afloat, market reports, new commercial uses for the product, fluctuations in freight, duties, and dock charges, all affect the importer and his chance of doing successful business.

Trade Societies.

If your trade boasts an exchange or a trade society, an early opportunity should be taken to join. Speaking generally, it is a mistake to remain isolated from the general body of traders around you. Unless there are cogent reasons against, there is much to be gained by identifying yourself with fellow-traders, offering them your co-operation and securing in return market news and facilities, the use of a recognized exchange or social centre, status information, and the advantage of organized action to remedy grievances that may arise with transport agencies or local authorities.

Publicity.

Publicity is essential to the building of any business, and the problem of the beginner is to get the best immediate return for the least outlay. Probably neat circulars giving the office address, telephone number, and address for telegrams, announcing the opening of business, and asking a chance of quoting for specific lines, would be the best start. These should be sent to a judiciously selected list of "prospects." At the same time, personal calls would be made wherever the beginner has access or is justified in expecting a friendly hearing.

The next step should be a small but attractive advertisement in the most suitable trade journal, offering some specially favourable line, when possible, rather than making general statements. There is room for improvement in trade journal publicity. Many firms still follow the "old school," and use publicity as opposed to propaganda. A bald statement of name, address, and trade hardly touches even the general public to-day. Much less, then, will it carry weight with hard-headed wholesale buyers, unless they are anxiously awaiting the new-comer's advent! Neither, at the other extreme, will the witty type of popular advertisement, designed to catch the public eye, serve so well for trade papers. A brief reasoned statement of the selling points of your goods, with information as to discounts and

delivery arrangements, and tactfully displaying knowledge of any special peculiarities of the trade, will be more likely to bring business.

A New Product.

The counsels just given apply with greatest force to the importer who is seeking a share of the existing trade in staple commodities. It must be granted that a man who has secured sole rights for some new product—say, a patent cereal food, a proprietary medicine, or a new American gramophone or motor-car—is faced with a somewhat different problem. Trade papers and societies may not help much, while the advertising side of the proposition may at first claim great attention. The agent may have authority to use a generous appropriation on a publicity campaign directed either at trade buyers or at the general public, or possibly at both sections. Again, his principals may have left the publicity side to a professional house, or may be running it themselves from the home base, though in that case the agent should have some voice as to the media chosen. In any case, there are certain practical points that should be looked to. In preparation for the anticipated sales, the agent should make enquiries of the shipping companies for their freight charges, should ascertain whether the goods are dutiable, and get to know the dock and rail rates likely to be incurred. This information will soon be useful.

Location of Office.

In most cases the location will have been pre-decided, but if choice remains there is no doubt that an importer's best plan is to establish himself either (1) in the port where the majority of his goods will be landed, or (2) in the town where the best market exists. He is best placed when these advantages can be combined, since, if his office is distant from the usual arrival port, he will be constantly paying for the help of a forwarding agent. Since intercourse with shipping companies, dock and customs officials, and the commercial houses will be continuous, an office in the business quarter is, of course, desirable, and the rooms chosen should be as near ground level as means will permit.

Agents.

An importer, then, may operate "in his own right" or act as an agent. As the term "Agent" is often widely and loosely used, its immediate significance will be explained. As opposed to the importer who buys for his own account and then endeavours to re-sell, the import agent secures rights for the sale of certain products within a given area, and is remunerated by an agreed percentage on his sales. His duty is to book orders, transmit them to his principal, and in due course attend to the reception and delivery of the goods. He is not, however, responsible in the ultimate for

the actual collection of the cash from buyers. This rests with the principals unless, by special agreement, they have appointed a *del credere* agent, who, in consideration of a higher rate of commission, has undertaken financial responsibility in respect of all orders forwarded. Thus, the principal practically insures against bad debts at a premium equal to the extra commission paid for *del credere*, and the agent makes his local knowledge and good judgment earn him a higher income.

An agent who has the option as to which class of agreement he will work on, should carefully scrutinize the proposed clauses and decide after mentally weighing up the extent of his trade knowledge—and his self-confidence. The position of a *del credere* agent resembles that of an independent importer in that he is responsible for securing payment for goods supplied, but, unlike an importer, he does not order goods forward as a speculation.

There are also *buying agents*, who, acting on the instructions of British manufacturers, will purchase and superintend the reception of quantities of produce or raw materials.

CHAPTER III

ADAPTING THE OFFICE

HAVING decided to enter import trade, a business man should turn his attention to certain changes of an internal character. For the benefit of a hasty enquirer, these may be summarized as matters of staff organization, office records, and useful reference books.

Staff.

The question of enlarging or altering the staff can only be dealt with on general lines. The number of assistants employed naturally depends on the present or anticipated scope of a business, but there should be in the office of every importer—

1. A man competent to handle shipping and customs documents, and possessed of a general knowledge of transport facilities.

2. A man who understands the duties of a cashier, and is acquainted with banking facilities, bills of exchange, credits, and the foreign exchange problem.

3. A competent book-keeper, careful and accurate at figures, able to compile invoices, statements, and account sales, and on occasion to code and de-code cables.

4. When business with non-English-speaking countries is anticipated, a clerk who can correspond in the languages likely to be used will be valuable.

5. The ubiquitous shorthand-typist and the office boy complete the *desiderata*.

Of course, two or more of these classes of work may devolve on one individual, or the duties



By permission

HANDLING TIMBER IN THE PORT OF LONDON

"Siren and Shipping"

may be further subdivided. It will depend on the capacity of the employees *and their chief* as to which functions are combined in one person. At the start the new importer may carry out all the duties himself, except possibly that translation work will be passed to a professional translator. One of his problems will be the judicious recruitment of his staff to keep pace with a growing business. One solution is the engagement of cheap juvenile labour, which, coming raw and unprejudiced, can be trained. The other is the payment of an adequate salary to a carefully-chosen man with specialist knowledge, and this course generally gives best results.

Attention has so far been confined to the actual importing, but the sales side is equally important. Aggressive sales work will naturally fall to the principal, with such other trained help as he may from time to time secure. Yet, since transport costs have to-day a material effect upon trade, he will be wise not to divorce himself too rapidly or too thoroughly from the detailed routine of importing his goods.

Reference Books.

A well-chosen office library is a perpetual investment. Besides directories, postal guides, time tables, books on commercial law, etc., such as should be available in every office, an importer will need certain special publications. A copy of the General Railway Classification, a good railway rate book, a Customs Guide, and an official Customs Import List, are essential. A general guide to the Customs Tariffs of the world may be useful, though changes are so often made that such works should not be implicitly relied on. When important interests are at stake, an enquiry at the Consulate is always desirable. Technical handbooks relating to the particular trade, trade association year books, and a dictionary of commercial products will often be handy. Details of dock rates and charges should be obtained (gratis) from the ports likely to be used, and enquiries should be made for freight rates, lists of ships expected, and similar useful data from the shipping companies. *Lloyds' Daily List* showing movements of vessels may be worth keeping available.

An Importer's Records.

Inspection of importers' offices will reveal the existence of many systems, and often of a lack of system. The books normally used in business houses serve their habitual purpose in the office of an importer. An Invoice Guard Book, Purchases and Sales Books, a Consignments Inwards Book, Ledgers, Stock Books, and a Cash Book and Petty Cash Book may be needed, but none of these presents unusual features. The Stock Record will be important, since it deals with goods not under the eye of the owner. Dock or wharf landing accounts may be pasted direct into this

book, or it may be found better to file these documents separately, extracting their main particulars for the Stock Book. They can then be more easily produced to substantiate insurance claims, etc. The Stock Book should record the ship's name, rotation number and date of report, the place of storage of the goods, their marks and numbers, and the rate and date of commencement of rent. It will then be a simple matter to issue correct transfer or delivery orders, and a watch can be kept for goods that may be "eating their heads off" in rent charges. When sales are in prospect, too, one can quickly ascertain the gross cost of a parcel "*ex wharf*."

No delay must take place in writing off in the Stock Record those goods for which delivery or transfer orders have been issued. This will prevent unfortunate incidents such as sometimes happen through lack of co-ordination: where an irate buyer complains that there are no goods on hand at the dock to meet your delivery order.

A system should be devised for checking dock, rail, and cartage charges and ensuring that they are noted for inclusion in the appropriate Statement or Account Sales. Again, whatever filing system be adopted for ordinary correspondence, it is vital that all Marine Policies, Landing Accounts, Certificates of Damage, Transfers, and duplicate Delivery Orders be stored so as to be readily available. Nothing is more annoying than to find that the particular document relied upon to substantiate a claim has in some way gone astray, and, in some offices, nothing is more common than such an experience.

CHAPTER IV

USEFUL AUXILIARIES

THE new importer will soon find himself in contact with a fresh circle of business men, whose functions he will need to understand. "Courtesy all round" is a good enough rule, but the man who keeps a big buyer waiting half an hour while he patiently listens to a would-be forwarding agent, has something to learn. He should get clearer ideas on just what part the different firms play in his own scheme of things. Some may be allowed to approach cap in hand, respectfully soliciting business; others it will pay the *importer* to approach respectfully, or at least tactfully, until he is sure of his ground.

Ship-owner and Ship-broker.

The ship-owner and ship-broker are among the first with whom an importer will have to deal. Ship-owners are of all classes, from the huge corporation owning palatial passenger liners to the owner of a single cargo boat. The ship-broker is an intermediary whose activities cover a wide range. Not only does he assist in the purchase,

sale, chartering, or hiring of vessels when so requested, but he also represents and acts as agent for the owners of vessels, either regularly or casually. When steamers make regular calls at a port where the owners themselves have no branch, a local firm of ship-brokers will be employed to look after the interests of the owners at that port. They will attend to all Customs formalities relating to the vessels as they arrive, pay all dock dues, pilotage charges, etc., pay off the crew and engage fresh hands as necessary, receive freight due at destination, book space, and issue bills of lading for outgoing cargo, and settle to the best advantage all claims for shortage and damage on behalf of the owners, for whom, in fact, they deputize. The master of a tramp vessel, or one entering an unaccustomed port where neither the owner nor his regular agent is established, will usually get the help of a local ship-broker to attend to the Customs requirements and to obtain stores and coal.

The importer's main concern with the ship's representatives lies in obtaining from them, without delay, a release or delivery order for his goods, and in claiming against them for shortage or damage revealed when goods are landed. For his purpose, ship-owner and ship-broker are almost synonymous terms—not entirely so, however, as many importers discover. The broker who acts for a foreign or colonial firm of ship-owners often has a simple but unanswerable reply when claims are made, particularly if they are a trifle late. He informs the complainants that he is very sorry, but his accounts with the owner for that voyage are completed, and, much as he sympathizes, he can see no means of re-opening the question. Often this is true, though it may form a cloak for inertia. The moral is that any question of shortage, wrong delivery, damage or the like should be taken up with the ship without delay.

Railway Staff.

With railway officials, lightermen, cartage contractors, and other transport agencies, the trader may have had some experience in the home trade, but special reference will be made to certain practical points as the series progresses.

Dock and Wharf Officials.

Dock and wharf officials, who may hitherto have been strangers to the importer, will be dealt with. They are worthy men who, however, sometimes err by not seeing things from their clients' point of view. Compact expression of useful generalities is not easy, but remember that it is the business of these people to retain a strictly impartial outlook on the commercial community, and treat all clients alike. Goods of all kinds are temporarily under their care, and an incautious word may easily disclose to a rival some material trade fact, to the detriment of the importer. Do

not, therefore, stroll down to a warehouse and claim to be shown goods and permitted to take samples unless you hold some evidence of ownership. The goods may be yours, but you must be ready to prove the fact. Recollect that your own interests, beside those of other firms, depend upon this care, superfluous as you may at first think it.

Note carefully that most dock records are kept according to the name of the importing ship. This, and not the name and address of the customer, is the basis of the ledger system. By taking care to quote on all correspondence relating to goods expected, or on delivery orders, the name, date of report, and rotation number (if possible) of the vessel, needless irritation will be saved.

The difficulty of getting prompt attention in some of the large dock systems is sometimes ventilated, but the "grouse" is a bit wide of the mark. No business of any size, whether merchant or dock company, can run without organization and subdivision of duties. The man who wanders into a dock and expects the first labourer he meets to know, off-hand, all about his "couple o' cases of stuff that came in the other week," is not displaying much common sense. Such men get more sympathy than they deserve. A little trouble taken to learn how your particular port is organized, where dock charges are paid, where rates are quoted, where instructions for delivery and sampling are best lodged, and where information as to ships expected can be obtained, will be quickly repaid. Prompt replies can then be got from the right man. The complaints of "red tape" sometimes levelled at dock and railway authorities are not quite fair. Isolated cases of inefficiency or even obstruction may occur, but in the main the officials work rapidly and carefully to ensure the greatest good for the greatest number. In giving them the benefit of the doubt, and approaching them with a conviction of their desire to help, lies the secret of securing expedition.

Insurance Brokers.

Insurance brokers may sometimes have to be seen. A great deal of Marine Insurance is carried through in England, and it may fall to the lot of the importer to cover against marine risks a consignment afloat for this country. Such a task can either be carried out direct with one of the large insurance companies or, through a recognized insurance broker, with the underwriters at *Lloyds*. The broker is a reputable intermediary whose payment lies in the 5 per cent discount habitually granted him by the underwriters on all premiums paid.

Selling Brokers.

In the produce markets, the broker carries out important duties. He is usually expert in one class of goods, and on instructions from importers he will sell, or on behalf of others he will buy,

produce either at public auction or by private treaty. The existence of the broker is only justified by his expert knowledge of his speciality, which should enable him to buy and sell to greater advantage than could a novice. Only experience can guide the importer as to when that special knowledge is wisely purchased at the cost of the brokerage fee, and when it would be as well to try one's own hand.

Forwarding, Shipping or Custom House Agents, and Transport Specialists.

The directory discloses the existence of a large class of firms under these various heads. They range from substantial, old-established firms to one-man businesses using accommodation addresses, so that generalities are dangerous. Their claim to the attention of the importers lies just here. Through lengthy experience they have acquired an ability in handling shipping documents and a knowledge of Customs requirements which, they claim, enables them to handle goods more economically than could the owner. It is also urged that the trader who gives them his routine work—on commission—is left free for his legitimate business of selling goods.

When goods reach ports where the importer has no direct representation, it will be almost imperative to employ a shipping agent on the spot. The alternative of sending a member of the staff to attend to Customs clearance, etc., is not usually worth considering. But where goods are due at the port where the importer has his own office, the advantage of using an agent is more problematical. Each importer should decide, according to his temperament and patience, whether he will acquire the knowledge of Customs routine necessary to enable him to do his own clearing work, or whether in his case the payment of agents' commission will be warranted by the time saved for selling effort. One solution is to engage a competent assistant directly the amount of traffic permits, as there is much to be said for keeping the work under the importer's own roof when the vessel discharges in the adjacent port. Even when the work is given to an agent, the importer should keep in touch with dock and Customs charges, so as to check his agent's working and see that all economies are duly passed on.

In modern commerce, almost anything can be delegated—at a price. It has been cleverly observed: "When a man says he can do something for you better than you can do it yourself—*put him on commission.*" Shipping agents, produce brokers, insurance brokers, publicity experts, translators, typing offices are all available in any commercial community, and even office boys will be loaned by the messenger agencies. An importer may elect to do all his work alone, or he may accept the proffered help. Success lies partly in a judicious use of the "experts," and in knowing

when it will be an economy to employ full-time staff in their place.

CHAPTER V

RECEPTION AND CLEARANCE OF GOODS

THE scope of the subject and the varied interests involved having received attention, it will be useful to visualize in outline the procedure for importing goods, bearing in mind all the time the ultimate purpose. Such an initial survey is worth while before getting so immersed in detail that one "can't see the wood for the trees."

Imports can be divided, in theory, into those sent forward "On Consignment," and those arriving "Against Orders." These classes correspond roughly—though not entirely—with the transactions of an independent importer, and of an agent. Goods "On Consignment" may be forwarded by the shipper to the order of the importer, who will arrange for their reception and try to find a purchaser at the best possible price. Such a transaction would be concluded by the issue of an *Account Sales*, stating the gross price realized, less the various costs and commissions. The net proceeds due to the shippers may be remitted, or a credit may be opened for the shipper at some pre-determined bank.

Goods that come "Against Orders" hardly need further explanation. They are sent in satisfaction of definite orders given by the importer himself or one of his clients, and the importer's duty will be to attend to the landing, clearance, and delivery of the goods directly they arrive. If the importer has himself made the purchase, anticipating a rise in prices, he may have the goods stored in dock warehouse, send for samples, and await a suitable moment to conclude an advantageous sale.

Briefly then, the duty of the importer in either case is to arrange for the reception and storage, or removal to destination, of parcels of goods either on his own behalf or in the service of a principal. He must receive and negotiate certain documents, make satisfactory arrangements with the ship-owners, the dock authority, and the Government as represented by H.M. Customs, and superintend the removal of the goods from the ship's side by craft, rail, van, or hand labour into direct storage. To this end, law and custom have established a procedure that it is the purpose of these chapters to explain.

Customs Formalities.

The Government require a record taken of all goods that enter or leave the country. Whatever the importer's private view on the wisdom of this measure, the requirement is legally upheld and must be complied with. The record is compiled

from details furnished on a form known as a *Customs Entry*. When goods are dutiable, payment of the duty must be made consonant with the passing of the *Entry*, unless it be deferred by storing the goods under Customs supervision in a *Bonded Warehouse*. When the *Entry* has been passed at the Custom House, the goods must be "cleared." This means that the foreman at the warehouse where the goods are stored must secure the attendance of a Customs officer, who will examine the goods and compare them with the *Entry*, and, when satisfied, permit delivery.

The Ship-owner.

With respect to imports, the ship-owner's concern lies in securing due payment of his charge for *Freight*, should this not have been prepaid. The shipper will forward, either direct or through a bank, *Bills of Lading*, which, on being presented to the ship-owner properly endorsed, substantiate the importer's claim to the goods. The ship-owner will then either release the bills of lading or will issue his *Delivery Order*, which must be presented at the place of discharge or storage to secure the goods.

The Dock or Wharf.

Before goods are carted away, the dock or wharf people must be satisfied that delivery is being made to the rightful owner. Exception should not be taken to this attitude, which is, however, at the root of many lost journeys and some profanity. Since ownership in goods is transferred simply by endorsement of the bill of lading or of a *Delivery Order*, dock clerks must use care in allowing delivery, satisfying themselves that a complete chain of documents or endorsements exists, from shipper through the importer to the ultimate applicant. Goods will be delivered, then, provided the correct documents are lodged and the dock charges are paid or guaranteed.

Summary of Routine.

The essentials of an import transaction may be set out as follows—

1. Despatch by the shipper to the importer of a *Shipping Advice* giving details of goods despatched, and possibly the name of the vessel carrying them.
2. Receipt of an *Invoice* specifying in greater detail the goods, with weights, measurements, marks, numbers, and the price, with discounts,



This space is for the use of the
Officers of Customs and Excise.

ENTRY FOR FREE GOODS

IN TRANSIT ON THROUGH BILL OF LADING

No. 15 (Sale).

Port *London*

Port of Exportation *London*

Dock or Station *Surrey Com.*

Exporting Vessel *Barambah*

Importer's Name and Address *J. Vissian
10 Thames St.*

(No. .)

Examination	Ship's Name <i>Blue Peter</i>	Master's Name —	Rotation No. <i>22/6180</i>	Date of Report <i>25/8</i>	Port or Place of Shipment of Goods <i>Stockholm</i>	
Marks and Nos.	No. of Packages and Description of Goods, in accordance with the Official Import List.			Name of Place whence goods consigned*	Net Weight or Quantity	Value £
<i>J. V. Co</i>	<i>Ten cases Cream Separators</i>			<i>Stockholm</i>	<i>12 cwt.</i>	<i>30</i>
* Note—The place whence the goods were consigned is not necessarily the place of origin, but it is the place from which the goods were procured by the Importer, i.e. the place of last ownership.						
† The Consignor is the last owner of the goods at the place from which they were procured, and the Importer is the person by whom they were so procured from the Consignor.						

Name and Address of †Consignor *Products Corporation Ltd.
Stockholm*

I enter the above Goods as free of Duty, and declare the above particulars to be true.

Dated this *27* day of *Aug.* 19 . } (Signed) *for J. Vissian*
L. A.
Importer or his Agent.

COLONIAL LINE
(AUSTRALASIAN SERVICE)

HEAD OFFICE :—9 & 11 LLOYD'S AVENUE, LONDON, E.C.
NEW ZEALAND HEAD OFFICE :—WELLINGTON.

NEW ZEALAND HOMEWARD BILL OF LADING—REFRIGERATED CARGO

No. ...

SHIPPED in apparent good order and condition, by *Southern Dairy Association of N.Z. Ltd.*

on board

the Steam Ship * "*Port Kembla*"

Whereof is Master for this present voyage

now lying in *Bluff*

the following Goods, viz. :—

Sixty-five (65) Boxes Butter

being marked and numbered as in the margin, and subject to the liberties, exceptions and conditions hereinafter mentioned to be delivered at the Ship's anchorage from her deck (where the ship's responsibility shall cease), at the PORT OF *London* (or so near thereto as she may safely get always afloat), unto *Order*

or assigns. Freight for the said Goods due on shipment payable at destination at the rate of *5/- per box net* Ship and/or cargo lost or not lost. Average according to York-Antwerp Rules, 1890.

A With liberty to substitute any other or succeeding Steamer, and also with liberty either before or after proceeding towards the port of discharge to proceed to and stay at, and/or return to any port or places whatsoever (although in a contrary direction to, or out of the route to or beyond the said Port of Discharge) once or oftener, in any order, backwards or forwards, for the purpose of dry-docking (even with cargo on board), or loading or discharging cargo, coal or passengers, or for any purpose whatsoever. The Steamer may proceed via Suez Canal and/or Batavia and/or Colombo and/or Port Said and/or any Mediterranean and other Continental or U.K. ports; or via Cape of Good Hope, and/or Durban and/or Capetown and/or other African Port or Ports, or via Cape Horn or Straits of Magellan, or Panama Canal and/or any ports or places in America or Islands off the coast thereof. All the said liberties, exceptions, and conditions shall apply (any warranty, implied term, custom or rule of law to the contrary notwithstanding) although the vessel may have deviated from the contract voyage, and although such deviation may amount to change or abandonment of the voyage, all such deviations being deemed within the voyage intended, and nothing in this Bill of Lading, whether written or printed, or implied therefrom, shall limit or affect the provisions of this clause; also with liberty to tow and be towed and to assist vessels in all situations, and to deviate for the purpose of saving life or property; also to sail with or without pilots, and to carry cargo and live stock on deck. The port of discharge for optional cargo must be declared before the Steamer's arrival at the first optional port, and failing such declaration the Steamer may elect to discharge at the first or any other optional port.

B The ship has the right to drydock before the loading or discharge is complete and with cargo on board and to suspend the loading or discharge during the time so occupied. The Consignees or their Assigns must be ready to take delivery immediately on Steamer's arrival at discharging port, berthed or not berthed, and must so continue ready and receive their Goods as fast as steamer can deliver. On Consignees or their Assigns failing to take delivery of the said Goods within the time and at the rate aforesaid, the said Goods, the Shippers, the Consignees, the owners of the Goods and the Holders of Bill of Lading shall be jointly and severally liable to pay the vessel on demand demurrage at the rate of 6d. per gross registered ton per day or portion of a day during the delay so caused; such demurrage to be paid in cash day by day to the Master or Agents; and if the demurrage is not so paid, and/or if in the opinion of the Master (whose decision on the subject will be absolute and binding on all parties) the discharge of this and/or other cargo cannot be effected without undue detention, the Steamer shall have liberty to overcarry this and/or other undischarged cargo to another port at Merchants' risk and there deliver, in which case the rate of freight is to be increased by a reasonable rate from the intended to the actual port of discharge, alternately the Master or Agents may at their option at any time, either at the port of discharge or the port to which the Goods may be overcarried, land and warehouse the Goods, or discharge them into a storeship or hulk, or into lighters, or on to a wharf, as is customary at the risk and expense of Consignees or their Assigns, but no obligation is imposed upon Master or Agents to follow this course. These stipulations override any conditions other wise stated on this Bill of Lading if inconsistent therewith.

C The Carriers (which expression throughout includes the Owners, Charterers and Master of the above and any other carrying steamer) shall not be accountable for the condition of Goods shipped under this Bill of Lading, nor for any loss or damage thereto, whether arising from failure or breakdown of machinery, insulation or other appliances, refrigerating or otherwise, or from any other cause whatsoever, whether arising from a defect existing at the commencement of the voyage, or at the time of shipment of the goods or not, or from detention; and Steamer shall be at liberty to jettison the whole of the Goods, or any part thereof, if considered necessary on account of decomposition or otherwise.

D The Steamer has the right to discharge by day or night, but if the Consignees require delivery before or after usual hours they shall pay any extra expense incurred in consequence.

E The Act of God, the King's Enemies, Pirates, Robbers or Thieves by Land or Sea, Arrests or Restraints of Princes, Rulers of People, War, Riots, Strikes, Lockouts, or other Labour Disturbances, or delay or hindrance caused directly or indirectly thereby, and loss or damage resulting therefrom, or from any of the following causes or perils are excepted, viz.: Insufficiency in packing, or in strength of packages, loss or damage from cooling on the voyage, rust, vermin, breakage, leakage, drainage, sweating, evaporation or decay; injurious effects of other goods; effects of climate; or temperature of holds; risk of craft, of transhipment, and of storage afloat or on shore; fire on board, in craft, or on shore; rain, hail, snow, frost or ice; explosion, barratry, jettison; collision; whether with another ship or any other obstacle; stranding, lying upon or touching the ground; perils of the seas, rivers or navigation of whatsoever nature or kind, and howsoever caused any accidents to or defects latent or otherwise in hull, tackle, boilers or machinery, refrigerating or otherwise, or their appurtenances, (whether or not existing at the time of the goods being loaded or the commencement of the voyage) or insufficiency of coals at the commencement or any stage of the voyage provided reasonable means have been taken to provide against such defects and unseaworthiness, and any other cause beyond the control of the Carriers. Accidents, loss, damage, delay or detention from any act or default of the Egyptian Government or the administration of the Suez Canal, when proceeding via Suez Canal, or of the Argentine Government, when proceeding via Cape Horn and River Plate are also excepted. It is expressly agreed that all the exceptions and liberties in this Bill of Lading shall equally apply to any other Vessel into which the goods are shipped.

F The Carriers are not to be responsible for faults or errors of navigation.
G The Carriers undertake that before loading cargo in any insulated space or spaces they have obtained a Loading Certificate from Lloyd's Surveyor or other competent Surveyor, and provided the Carriers have exercised due diligence to make the vessel seaworthy and capable of performing her intended voyage, and to properly equip, man, provision and outfit her, the production of such Certificate shall be deemed to be conclusive evidence against the Charterers, Shippers, and Consignees or Indorsees of Bill of Lading, that the vessel, her engines, machinery, refrigerating machinery, spare gear, equipment and insulation, were at the loading and commencement of the voyage in every respect sufficient and in a seaworthy and fit condition; and the existence of such Certificate shall be deemed to satisfy and discharge every obligation or warranty, express or implied, under Charter Party or Bill of Lading, to provide a seaworthy and fit vessel for the voyage.

H The Carriers shall not be responsible for correct delivery unless each package is distinctly, correctly and permanently marked by the shipper before shipment with a distinctive mark and number or address, and also with the name of the Port of Delivery, which last must be in letters not less than two inches long. In cases of obliteration of such marks numbers or addresses, or of the same not being sufficiently distinctive to enable the Agents of the Ship to identify the goods, the said Agents will make as fair allotment of goods to this Bill of Lading as is under the circumstances practicable, and the goods so allotted shall be accepted by the Consignee in full discharge of the liability of the Steamer or her Owners or her Charters thereunder.

I The Carriers shall not be liable for any delay in delivery or damage caused thereby to any particular portion of cargo which cannot be delivered until other cargo is discharged, or which cannot be delivered without risk of injury or damage to other cargo, or for any other reason.

J The Carriers are at liberty to tranship the Goods, either before the commencement of or during the voyage, and to carry the said goods to their Port of Destination by the above or other Steamer or Steamers, Ship or Ships, either belonging to the same or other persons, proceeding by any route, and whether directly or indirectly to such port, and in so doing to carry the goods beyond their Port of Destination, and to land and store the goods at any port or place, either on shore or afloat, and re-ship and forward the same, either by land or water, at the Carriers' expense, but at the risk of the owner of the goods.

K All fines and expenses or losses by detention of Vessel or Cargo, caused by incorrect or insufficient marking of the package, or by incomplete or incorrect description or weight (or any other particulars required by the authorities at the Port of Shipment or delivery) either upon the packages or the Bill of Lading, shall be paid by the Shipper or Consignee of the goods, or the holder of this Bill of Lading.

L Any expense incurred by the Carriers in repairing insufficient or damaged packages is to be borne by the owner of the goods, and the Carriers are not to be liable for pilferage of contents of such packages, all risk of lighterage for any purpose to and from the steamer or during transhipment shall be borne by the owner of the goods.

M In case of quarantine, the goods may be discharged into quarantine depot, hulk, or other vessel, as required for the Steamer's despatch. Quarantine expenses upon the goods, of whatsoever nature or kind, shall be borne by the owners of the goods.

N In case of the blockade or interdict of the Port of Discharge, or if the entering of or discharging in such port shall in his sole discretion be considered by the Master unsafe by reason of war or disturbances or other reasonable cause, the Master may land the goods at the nearest safe and convenient port or place at the expense and risk of the owners of the goods, and the Consignees shall take delivery at such Port or place. The Carriers' responsibility shall cease when the goods are so discharged into proper and safe keeping, the Master giving immediate notice of the same to the Consignees of the goods, so far as they can be ascertained, but the Carriers' lien on the goods under this Bill of Lading shall, notwithstanding their discharge, remain good until discharged by payment.

O The Carriers shall have a lien upon the said goods shipped hereunder for all freight, advance freight, charges, dead freight, demurrage, lighterage, expenses, damages, or average and other charges for which the goods or the Shippers or Consignees thereof, are liable under this Bill of Lading.

P In cases where the ultimate destination at which the Carriers may have engaged to deliver goods is other than the above Steamer's intended Port of Discharge, the Carriers reserve the right to forward such goods by rail or water. The Carriers act as forwarding agent only from that Port, and in all cases the liability of the Carriers on account of all goods is to cease as soon as the goods are free from the Ship's Tackles.

Q The liability of the Carriers in case of any claim for which they may be responsible is in no case to exceed the net invoice cost, and it shall be a condition precedent to the making of any claim for damage that written notice be given before the goods leave the Steamer's side, and that all other claims shall be made in writing at the Port of Delivery within one month of Steamer's arrival there, and failing compliance with these provisions all claims shall be deemed to be waived.

R All questions arising under this Bill of Lading shall be settled according to the principles of English Law.

S Nothing herein contained shall prevent the Carriers from claiming in the Courts of any country the benefit of, or derogate in any way from any statutory protection or limitation of liability afforded to Shipowners or Carriers by the laws of such country.

T Any difference in freight due to steamer on excess weight landed, corrected measurement or through incorrect description of cargo, to be collected from Consignees.

U Weight, measurement, contents, condition, quality and value unknown.

In Witness whereof the Master, Purser or Agent of the said Steamer hath affirmed to *Two* Bills of Lading all of this tenor and date, one of which being accomplished the others to stand void. If required by the Carriers or their Agents, one of the Bills of Lading must be given up, duly endorsed, in exchange for the Goods.

Dated in *Dunedin* *7th July, 19..*

For Colonial Line
J. Swift, Master

NE Shippers are requested to note particularly the Terms and Conditions of this Bill of Lading with reference to the validity of the Insurance upon their Goods.
2 All charges on Cargo comprised in the within Bill of Lading incurred in complying with the requirements of Health Authorities at any Port or Ports en route including Ports of destination and/or discharge shall be paid by Consignee.
3 The Steamer will not be responsible for Counter Marks, Sub Marks or Marks indicative of size or quality.

4 When and so long as a state of Naval War exists and/or so long as any control over the use or movements of the steamers is exercised by any Governmental or other Authorities and/or the insulated space on this vessel is requisitioned or controlled by His Majesty's Government the Carriers and/or their Agents and/or the Master may (if in their uncontrolled discretion think it advisable) at any time before or after the commencement of the voyage alter or depart from the proposed or advertised or agreed or customary route and/or delay or detain the steamer at or off any port and/or tranship the cargo at any port or ports without claim for loss or damage directly or indirectly sustained.

5 In addition to any liberties expressed or implied in this Bill of Lading the carriers shall have the liberty to comply with any orders or directions as to departure, arrival, routes, ports of call, stoppages, transhipment, discharge, destination, or otherwise howsoever given by any Government or any department thereof or of any person acting or purporting to act with the authority of any Government or any department thereof or by any war risk insurance association working under any Government scheme in which the steamer may be entered and and nothing done or not done under such orders or directions shall be deemed a deviation.

6 The ship is free to carry contraband explosives, munitions or warlike stores and may sail armed or unarmed.

Nothing in the above clauses shall in any way restrict or prejudice any other liberties or exceptions in this Bill of Lading.

Seaward Down 65 Boxes Butter
(Creamery)

SAID TO WEIGH
each 56 lbs.

if any. (Besides its primary use, the invoice will be needed when passing *Customs Entry*.)

3. Receipt direct from the shipper, or through the ship-broker or a bank, of an original *Bill of Lading*. This should be endorsed and presented for release when the vessel is due.

4. Preparation and passing by the importer of a *Customs Entry*, involving sometimes payment of *Duty*.

5. Issue of Delivery Instructions, which should be lodged, accompanied by the released bill of lading, with the dock or wharf.

6. In some instances, sale arrangements and the preparation of an *Account Sales*.

This is just a framework, to which additions will often be necessary. For example, the question of arranging marine insurance, and the prosecution of a claim, may sometimes fall to the importer.

The routine of Customs clearance is at present more complex than usual because of the requirements of the German Reparation (Recovery) Act, 1921, and the Safeguarding of Industries Act, 1921, but since the permanence of these measures is an open question, they have been treated separately, and the section devoted to Customs clearance ignores the modifications caused by these Acts.

Shipping Advice.

This document varies greatly in form, and sometimes is altogether omitted, but when fixing new business an importer should always ask for regular advices of goods despatched by his shippers. He is then able to make efficient arrangements for the reception and storage of goods, and may be able to sell them "to arrive" with advantage.

Goods will probably be consigned, in accordance with prior arrangements, to the port nearest their ultimate destination, though better sailings or lower freights may make other routes desirable. Anyhow, directly goods have been despatched, the shipper should notify the importer, by an ordinary business letter, by cable, or by completing some standardized form of *Shipping Advice* wherein are inserted full details of the goods, date of despatch and route, and ship's name if possible. When consignments undergo an inland journey to the shipment port, two or more such advices may arrive; one from the factory or inland "rail-head," and a second from the shipping company or agent at the departure port. This is an advantage. It helps an importer to estimate when his goods should arrive, and to placate impatient customers.

Invoice.

More important still is the *Invoice*, which may accompany (or supersede) the *Shipping Advice*, or may follow it by a mail or so. It should at least arrive no later than the bill of lading, since an invoice for imported goods has a double significance.

Beside serving the purpose of a home trade invoice by setting out the price of the articles purchased, it should contain details of marks and numbers of packages, their weights gross and net, measurements, nature, description, and origin of goods, the ship's name, and ports of departure and arrival, so that a correct *Customs Entry* may be passed and *Duty* can be properly assessed. The wise importer will quickly ascertain just what facts are needed for Customs purposes, and see to it that he receives invoices that help in this direction.

Properly to understand some invoices, acquaintance may be necessary with foreign languages, weights and measurements; more especially with the metric equivalents that are gaining general favour. Should it be desired to convert an invoice price shown in foreign currency to its equivalent in sterling, the rule used by H.M. Customs, failing any agreement or custom of the trade, is a good one. The rate shown in *The Times* on the date of report of the importing ship is adopted; where two rates are quoted, the higher is used.

Pro Formâ Invoice.

When dealing with "Consignment" goods, the importer, though he has not to pay prompt cash, wishes to know the actual cost of the produce, as a guide to making remunerative sales. For this purpose he generally receives a *Pro Formâ Invoice*, a document prepared like a real invoice, but sent "for form's sake" as the handiest method of acquainting the agent with the cost of the merchandise.

Price Terms.

The home trader will know how important it is in quoting or accepting prices to know exactly to what point they cover goods. When considering imports, this factor is intensified, since a misunderstanding may be very costly. Many expressions are used, but the small importer will not at first be concerned with more than two. He will usually buy either f.o.b. or c.i.f. F.o.b. (free on board) should mean that the price includes all charges up to and including the actual placing of the goods on board the vessel at the departure port. "Should" is inserted advisedly, as American shippers sometimes quote f.o.b. when all they really mean is f.o.b.—*railway truck*; or, virtually f.o.r. This ambiguity may be overcome by seeking a quotation f.o.b. *vessel*, or f.o.b. *New York* (or other named port).

An importer prefers, when possible, to buy c.i.f. (cost, insurance, and freight), which signifies that, in addition to the f.o.b. costs, freight to port of destination has been paid, and Marine Insurance arranged and paid for. Overside delivery would generally be covered, but landing charges payable to a dock authority would be excluded from a c.i.f. quotation, as would Customs duties

at this side. The buyer should not confuse c.i.f. with "delivered at destination," as it is unlikely his shipper will make a similar mistake. C.i.f. (familiarily "sif") has a distinct meaning, and no other is permissible. Sellers are responsible for getting goods on to the vessel, and for the delivery to the buyer or his agent of a clean bill of lading and insurance policy, but not for the delivery of goods at destination, nor for payment by the underwriters of any insurance claim. The buyer is strictly responsible, once he holds a clean bill of lading, for any risk not covered by insurance, and must pursue any claim direct with the underwriters or the ship-owners, as the case may be. The value of a c.i.f. quotation is that it removes any hardship to customers at a port to which freight rates are constantly fluctuating. The risk is placed on the shipper, who should be in the best position to allow for it.

Ex Wharf. If goods are bought *Ex Wharf* it is understood that landing charges and duties have been paid, but that the buyer will have to arrange for the removal at his own expense. There are variants used in certain trades, e.g. delivery *In Bond* or *Duty Paid* specifies whether the buyer or the seller is responsible for the payment of Customs Duty.

Free House, Franco, or Delivered are analogous terms used when a supplier delivers goods right to the importer's premises at a single inclusive price. *Free House*, therefore, includes the original cost of the goods plus packing, carriage, dock charges and freight, insurance, port and Customs charges at this side, and delivery to customer's premises, with any other incidental charges up to the time

of such delivery. *Free House* quotations make things easy for the importer, but, owing to the uncertain factors involved, the supplier generally prefers to quote f.o.b. or c.i.f.

The type of quotation customary depends upon the stability of foreign exchanges, the condition of the freight market, stress of competition, and long-standing customs of a trade. The task of the importer is made easier when quotations and invoices carry the goods as far as possible, but, in any event, the exact point to which the invoice price covers the goods should be carefully noted.

CHAPTER VI

HANDLING THE BILL OF LADING

THE document of primary importance to both shippers and importers is the *Bill of Lading*. It fulfils several purposes. It is a *receipt* furnished by the master of a vessel for goods put on board, with an *agreement* as to their delivery, and certain conditions of carriage. Serving also as a *Consignment Note*, it records the names of the shipper, vessel, and master, the ports of departure and destination, the number, weight, measurement and approximate value of the goods, the marks and numbers on the packages, and the amount due for freight, unless this has been prepaid. Unless the bill is drawn to "order," the name of the person to whom the cargo is deliverable will also be stated. In the hands of the importer, it is



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ENTRANCE TO ROATH DOCK, CARDIFF

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practically a document of title, proving him *prima facie* to be the owner of the goods described.

How Bills of Lading are Prepared.

A "set," consisting usually of three stamped copies and one unstamped copy, is prepared by the shipper or his agent and presented to the shipping company for checking. If all is in order, the stamped copies are signed by or for the master and returned to the shipper, who endorses the bills and sends one copy by the quickest route to the importer in this country. A second copy follows by next mail, in case the original should miscarry, but when one copy has been presented and acted upon, the others are void.

In some countries bills of lading have to bear revenue stamps of varying value. British bills of lading bear a 6d. stamp, but bills received from overseas unstamped do not require stamping.

General Conditions.

Because of the varied and grave risks attending ocean carriage, the bill of lading has grown into a complex document deserving careful study—which, by the way, it seldom receives until some difficulty has arisen. Acceptance of the bill of lading without protest is held to bind owners of cargo to its terms.

The gist of the contract lies in the introductory lines, where the ship-owner undertakes to deliver the specified cargo which has been shipped "in apparent good order and condition" . . . to the consignee at a given port, "in like good order and condition," subject to certain exceptions. Lengthy clauses follow, in which are detailed the events and accidents that will exempt the ship-owner from his obligation, and to the novice the exceptions appear fairly comprehensive. One shipping line trading from the Far East actually used a parcel receipt on which the position was crystallized by a stamped phrase, "Ship not responsible for anything." But, despite the cynical comments of disappointed claimants, the general position is not quite so bad as that.

Some of the expressions sound old-fashioned, but each has a clear legal meaning. The "Act of God" refers to perils or dangers beyond human control, e.g. lightning, or a sudden storm or cyclone. "Jettison" denotes the voluntary throwing overboard of cargo to relieve the ship in time of danger. "Barratry," once a common offence, signifies a malicious attempt by the master or crew to wreck or damage a vessel to defraud the owners. "Inherent vice" alludes to damage or deterioration resulting from a defect in the goods themselves that in the natural course has developed during transit. Many ship-owners use a clause, "Weight, measure, quality, contents, value, etc., unknown," and insert the words "said to contain" before the description of goods. This is designed to protect the owners against claims

when erroneous, incomplete, or fraudulent details have been furnished by shippers. A bill of lading stating that goods have been shipped in "apparent good order and condition" is termed a *clean bill*. When necessary, qualifying remarks, such as "wrappers torn," "oil stained," "two cases with loose battens," are added by the ship-owner.

Negotiability.

Conflicting opinions exist as to the negotiability of a bill of lading. Legally, the document is not fully negotiable, since a holder, even in good faith and for value, acquires no better title than the transferor possessed: yet, in practice, the ownership of large quantities of goods is constantly being transferred by the mere endorsement and delivery of the bill of lading. Perhaps the term "quasi-negotiable," used by Stevens, gives the best solution.

What to do with the Bill of Lading.

On receipt from abroad, the bill of lading should be carefully examined, special note being taken of any unusual clauses added by means of rubber stamps, etc. It is as well to make sure that an unsigned copy has not been sent in error; such a copy would be valueless. If the importer has not already learned the name of the vessel bringing his goods, the bill of lading will disclose this important fact. He should thereupon endorse the bill and ask the ship-owner or broker where the vessel will discharge and when she is due, so that arrangements for the landing and storage of the goods may be made with the dock or wharf concerned. He will also ascertain whether *freight* is payable at destination.

Freight.

Freight is simply the cost of conveying goods by sea. It is calculated at so much per ton, per lb., per thousand kilos, or per box (as with colonial cheese). Where a tonnage basis applies, the ship-owner claims the option to charge at "per ton w/m" (weight or measurement), which option, though sometimes criticized, is demonstrably fair. An owner taking a full cargo of goods which, though small in bulk, weigh very heavy, could not take more than the draft-allowed, though the vessel's cubic space might be only half occupied; and by charging on measurement he would lose heavily. Conversely, a cargo of light, bulky articles, though filling the vessel, would not sink her to the load-line, and at the tonnage rate would offer an inadequate return in freight. A fair average (generally 40 cubic ft. to the ton) has been adopted, and the ship-owner levies his rate per ton on every 20 cwt. or every 40 cubic ft., whichever gives the higher figure. This explains the statement sometimes made that goods of a given class weigh more than they measure, or *vice versa*. *Primage* is a percentage addition to

freight. Once regarded as a "tip" to the captain, it is now said to cover the use of the ship's gear, tackles, etc., for loading and unloading. Primage varies according to the custom of different ports and trade routes: 10 per cent is the usual figure.

Freight Account.

If freight has not been prepaid, the ship-owner issues a *Freight Account*, giving the weight of the goods, the rates of freight and primage, and the total sum due. Such account should be carefully checked as to rate, weight, and rate of exchange, when conversion to sterling is entailed. Extra freight may have to be paid on any excess in weight

course is to pay freight and then claim for the damage.

Release.

When the ship-owner is satisfied as to freight, he grants a *Release* or *Ship's Delivery Order*. The release is often given by stamping on the back of the bill of lading, and signing, a form of words somewhat as follows—

To the Supt., King George Dock.

Please release the within-mentioned goods: all charges to Consignee's Account. Subject to safe arrival.

For Nautical Shipping Company,
(Sgd.) J. Williams.

Other lines retain the bills of lading as they are presented by the various consignees, and issue against each a printed form instructing the ship's clerk or the dock warehouse-keeper to deliver the specified goods "without production of the bill of lading." Though this document is often termed a *Delivery Order* the term *Broker's Order* or *Freight Release* is better, as distinguishing the document from an importer's own delivery order. A small practical "tip" may be mentioned. Remember which lines retain bills of lading, so that, before applying to them for release, all essential particulars are noted from the bills of lading, and any special clauses that may influence the chances of success with any claim later found necessary.

Freight Stop.

In the exercise of his *lien*, a ship-owner may place goods under a *Stop for Freight*, by requesting the custodians (in writing) to detain the goods until advised that the amount of freight specified has been paid. According to the Merchant Shipping Act, the *stop*, to be valid, must be delivered at the time of landing of the goods, and must state the precise amount of freight claimed. The *stop* is cancelled by the issue of a *Removal of Stop for Freight*, when the ship-owner is satisfied as to payment or guarantee for the outstanding amount.

At some ports it is usual to honour a *General Stop* in respect of all cargo on a particular vessel. Such a *stop* is lodged when the boat arrives, and instead of the *Freight Release*, the owner issues a *Removal of Stop for Freight* to each consignee.

In cases of *disputed freight*, consignees secure their goods by depositing with the dock authority a cheque for the sum claimed by the ship. The goods are then cleared, and the dock authority



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"FALKLAND" DISCHARGING WHALE OIL AT MANCHESTER

discovered when goods arrive, unless the increase can be attributed to absorption of moisture during the voyage, as often happens with grain. Some lines penalize inaccuracies by collecting double freight on any excess measurement or weight.

Though freight is often prepaid, it is not legally due until the goods reach the destination and the ship-owner has completed his contract. But note this point: an importer cannot successfully contend, when disputes arise, that he is ready to pay freight *after* he has secured the goods. The principle governing freight is *readiness to deliver* at the named port: directly the ship-owner is prepared to deliver he can demand payment of freight. He has, moreover, a *Lien* for freight, i.e. a legal right to detain goods until the freight or incidental charges have been paid. The arrival of goods in a damaged condition is not a good legal ground for disputing the freight: the correct

dispose of the deposit in accordance with the eventual settlement. This procedure is laid down in the Merchant Shipping Act, 1894.

STOP FOR FREIGHT

PURSUANT TO MERCHANT SHIPPING ACT, 1894,
57 & 58 VICTORIA, CH. 60

To the Port of London Authority.

I hereby give you notice to detain all the undermentioned Goods, excepting samples of the same, which have been or shall be landed in your Docks¹ from the Ship "*Durham Castle*" _____ Master _____ *Hinton* _____ from _____ *San Domingo* _____ until the Freight and charges due thereon as herein specified shall be duly paid or satisfied; and in proof of which you will be pleased to receive the directions of

_____ *West Indies S.S. Coy., Ltd.* _____

_____ per *G. H. Freeman* _____

London,

_____ 6th _____ day of _____ *March*, _____ 19 _____.

Marks.	Quantity.	Description of Goods.	Amount claimed for Freight and Charges in respect of each Bill of Lading.
16 7642 JA	200 bags	Gum Kauri	

¹ The delivery of Goods overside must be the act of the Master or Officer in charge of the vessel.

Missing Bills of Lading.

If the bill of lading is late, it is sometimes possible to get delivery of goods by furnishing a Banker's Guarantee or *Indemnity*, on a form approved by the ship-owner. The legal phrases are so drafted as to hold the ship-owner harmless in respect of any consequences arising from his having delivered the goods without having received the original bill of lading. Such a form bears a 6d. stamp and must be signed by the importer and his banker, and lodged with the ship-owner. Freight Release will then be granted, and when the bill of lading eventually arrives it should be lodged in exchange for the indemnity. The acceptance of an *Indemnity* is made by some lines the way out of many awkward corners. When a bill of lading is incorrectly endorsed, or when the goods are imperfectly described—the quantity stated in the body of the bill may differ from that written in the margin—where there is no reason to doubt the good faith of the parties, a Ship's Delivery Order is issued, and an Indemnity is

obtained and filed with the bill of lading. Thus ship-owners safeguard their position without unduly obstructing trade.

The granting of a *Provisional Release* is becoming more prevalent among short sea traders. Such a release, forms for which are obtained from lines that offer the facility, is given upon the signed promise of the importer and his lighterman that if discharge overside into craft be permitted, the craft shall not leave the ship's side until a released bill of lading or its equivalent has been lodged. This helps both importer and ship-owner, giving earlier possession of the goods and speeding up the discharge of the vessel.

Extra Expenses.

Many clauses in the bill of lading concern events that may interfere with the normal carriage and discharge of the goods at the intended destination. Such clauses bring out the principle that ship-owners only contract to carry goods to the named destination if nothing unusual occurs, and that they can recover any abnormal costs, whether incurred by default of the consignees or not. For example, should a vessel have to wait in *Quarantine* at a distance from the intended place of discharge, the extra cost of lightering goods to some special store can be passed on to the consignees and is payable, equally with freight, before a *Release* will be given. If each consignee's proportion cannot readily be decided, releases are granted against a deposit and a guarantee to pay the balance on demand. Similar conditions operate when cargo is discharged elsewhere than at the intended berth owing to *strikes* or *lock-outs*, to *ice*, or if entry into a port be considered *unsafe*.

Some ship-owners habitually send a formal advice to consignees of cargo in vessels due to arrive, but such advice is entirely voluntary and without prejudice, as the owner is at liberty to start discharging his ship directly she arrives, without issuing any such warning. Receivers are bound, by a bill of lading clause, to be prepared to take delivery of cargo from the ship at any time, night or day, Sundays and holidays included, irrespective of weather, and as fast as the ship may require. In default, ship-owners claim the right to deliver cargo that is unclaimed, or not taken quickly enough, into a craft specially hired, and known as a *Captain's Entry Craft* because a Captain's Imperfect Entry has to be passed for goods so dealt with. Such craft are also used when suitable storage is not available for goods. Arrangements for the landing and storage of goods in Captain's Entry Craft are made on behalf of the ship-owner, who recovers his cost from the importers when they apply for a *Release*. The less demonstrative title of *Ship's Accommodation Craft* is used by some owners, who appear to find their regular employment a remunerative side-line.

Hague Rules, 1921.

An International Committee of shipping experts met in 1921 at The Hague, and drafted a set of seven articles designed to specify and standardize the degree of responsibility assumed by ship-owners in respect of cargo for ocean transport. The Committee had advisory and not mandatory powers, but it was understood that their decisions would be ratified by their respective Governments. In this country, the various interests, after some discussion, have now arrived at unanimity, and legislation in the sense of The Hague Rules, 1921, is awaited. Meanwhile, certain shipping lines have adopted the new conditions spontaneously, and others have alternative forms of bill of lading which will be used at the wish of the trader.

Parcel Tickets.

To save trouble, small packages of effects and sundries are often shipped on a *Parcel Ticket* or *Parcel Receipt*, instead of a bill of lading. A single copy only is completed, torn from a counter-foil book, and despatched to the consignee, by whom it is dealt with in every way as if it were the larger document.

CHAPTER VII

CUSTOMS CLEARANCE

HAVING seen how the lien of the ship-owner is discharged, we must consider the requirements of H.M. Government with respect to imports. Import Licences, which during the war had to be secured from the Board of Trade in connection with many articles, are now needed in a very few cases. The interest of the Government in all imports is two-fold. For (1) Revenue, and (2) Statistical purposes, it requires to know exactly what goods enter the country, and for this purpose a check is kept at the actual time of importation. Co-operation of traders being essential, all persons concerned in importing are required by law to furnish to H.M. Customs, on a form called a *Customs Entry*, the required particulars: the compilation of comprehensive trade records is thus rendered possible. For dutiable goods, a variant of the form is used, and the merchant has to calculate the amount of duty to be paid.

Free Entry.

The Customs Entry form most frequently used is No. 23 (Sale), the "Entry for Free (i.e. duty

No. 23 (Sale). [Revised Edition.]

Collector's No. and Date.



This space is for the use of the Officers of Customs and Excise.

ENTRY FOR FREE GOODS.

Port *London*
 Dock or Station *West India*
 §Importer's Name & Address *J. Charlton & Co*
19 Tottenham Court Rd

Examination	Ship's Name	Master's Name	Rotation No.	Date of Report	Port or Place of Shipment of Goods.
	<i>Lady Joan</i>	<i>—</i>	<i>21/5260</i>	<i>3/7</i>	<i>Boulogne</i>
Marks and Nos.	No. of Packages and Description of Goods, in accordance with the Official Import List.		Quantity.	*Value £	†Name of place whence goods consigned.
<i>J.D.C</i>	<i>Twenty five rebs</i>		<i>125 cwt</i>	<i>£130</i>	<i>America</i>
<i>1/25</i>	<i>newsprint</i>				<i>France.</i>

Name and address of §Consignor *Eric Trichelsen**America*

I enter the above Goods as free of Duty, and declare the above particulars to be true.

Dated this *5th* day of *July* 192 } (Signed)

J. Charlton & Co
 Importer or his Agent

free) Goods." This form, colloquially known as the *Free Entry*, will be taken as typical. Free Entry forms are bought from commercial stationers and filled in by the importer. The number of copies required varies and must be ascertained locally: in London, three copies of a Free Entry are wanted. There must be inserted the name of the port, dock, or station, the ship's name and master, the date of report of the vessel, a description of the goods, with marks, numbers, weight or quantity, value, and place when consigned; completed by a declaration that correct information has been given. Each copy of a Free Entry should be filled in indelibly, net quantities should be

he is satisfied that a correct return has been rendered. This is termed "clearing" the goods: the first step, that took place at the Custom House, was only "passing the entry." The distinction needs emphasis, since importers often think they have done everything necessary when entries have been passed, and incur lost journeys by sending down at once, without enquiring whether their goods are clear of Customs.

Clearance of Dutiable Goods.

The routine for clearing dutiable goods, such as wines and spirits, tea, coffee, sugar, tobacco, dried fruits, etc., is a trifle more complicated.



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MEADOW SIDE GRANARY, GLASGOW

given, and the value required is the c.i.f. value, or, if goods are consigned for sale, the latest sale value.

The requisite number of copies being filled in, the merchant should lodge them at the Custom House, where they will be checked, stamped, and initialed. One copy (termed the "bill") will be kept by the Customs officials as a basis for their statistics. They will send a second (known as the "Warrant") to the examining officer at the place where the boat is discharging, so that the goods can be inspected and compared with their owner's statement. When there is a third copy, it is known as the "Duplicate Warrant," and is returned to the merchant. When goods are urgently needed, time can be saved by lodging the Duplicate Warrant at the place of discharge. The foreman will then be able to secure the attendance of a Customs officer, who will check the goods and allow them to be removed when

Before passing an entry, beside having accurate particulars of the goods, one of two courses must be decided on. Either duty must be paid and the goods taken away as soon as convenient, or storage in a Bonded Warehouse must be arranged, to defer payment of duty.

If goods are needed for prompt consumption, and the importer is prepared to clear them forthwith, an *Entry for Home Use ex Ship* (p. 798) is prepared in duplicate. Beside the usual full description of the goods, the rate and amount of duty payable must be stated. The rate is ascertained from the official *Customs List*, and the calculation is made to the nearest penny. Duty should, where possible, be paid in cash. A cheque will not be accepted by the *Prime Teller*, unless it bears a covering note from the bank, "Good for £ . . .," a sum being named that more than covers the amount of the cheque.

Though accuracy is important when dealing with entries for dutiable goods, it is recognized that genuine errors may arise from lack of information. When goods are landed and taken to account, no notice is taken of differences in duty of less than one shilling, but if more than this sum is due by way of excess duty, the importer must pass a *Post Entry* for the surplus. Post Entries take the same number and date as the original (or *Prime*) Entry. When excess duty of more than one shilling proves to have been paid, the Customs authorities issue an *Over Entry Certificate*, on which a refund can be obtained.

Landing Order.

A small form known as a *Landing Order for Duty Goods* is sometimes used in place of one of the copies of the entry. When signed by the Customs officer and returned to the merchant, the *Landing Order* is used as a Duplicate Warrant, to gain early possession of the goods.

Should it be decided to defer the payment of duty by placing goods in a *Bonded Warehouse* specially approved by H.M. Customs and under their supervision, the type of entry needed is a

Warehousing Entry. In addition to other details, such an entry must state the name of the warehouse selected for storage, whence the goods may be removed after the entry has been passed. Sometimes goods must be conveyed under the charge of a *Customs Watcher*, who is obtained by applying to the *Appointer* at the Custom House, and whose wages are debited to the importer.

When goods are to be warehoused at another port or place, the importer, besides passing a *Warehousing Entry*, must enter into a *Bond* for double the amount of the duty to which the goods are liable. Arrangements are made at the *Bond Office*, a branch of the Custom House.

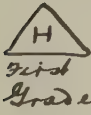
Bonded Warehouses serve a definite commercial purpose. Goods can be stored there for long periods without the disbursement of huge sums for duty, long before goods may be needed for consumption. More important still, by using the proper documents, goods can be re-exported from bond without payment of duty. Tea, for example, is imported in cases and taken to a bonded warehouse, where bulking, blending, and re-packing operations are undertaken, and the tea is eventually re-shipped without having incurred any



ENTRY FOR HOME USE EX-SHIP.

No. 22 (Sale.)
[REVISED EDITION.]

Port of Importation } London Dock or Station } St. Katharine
Name and address of Merchant paying the Duty } Uniah Heap & Co.
(If Post) Prime Entry No. _____ dated _____ 192

Ship's Name	Date of Report	Master's Name	Port or place of Shipment of Goods							
Kathleen	20/8/	Jones	Santo							
Marks and Numbers	Place and Country of destination in United Kingdom for Manufactured Tobacco and Spirits only	Number of Packages and Quantity in Words and Description of Goods in accordance with the Official Import List			* Name of place whence Goods consigned	Net Quantity in Figures	† Value	£	s.	d.
	—	Sixty bags Coffee ninety hundredweights			Brazil	90 cwt	£4.95	189-		

Total amount of Duty payable on this Entry £ 189 - ..

I declare the above particulars to be true.

Date 27th Aug. 19

(Signed) Uniah Heap & Co.
Importer of this Goods

Collector's No. and Date.

* Note.—The place whence the goods were consigned is not necessarily the place of origin, but it is the place from which the goods were procured by the importer, i.e., the place of last ownership.
(1) In the case of goods which are invoiced at a quoted price, the value to be stated in this Entry should be the price cost with the freight and insurance added ("c.i.f." value).
(2) When the goods are consigned for sale, the value to be given should be the latest sale value of such goods, exclusive of duty.

Customs Code, Vol. II., part II., par. 16. Sec. 60953/1920.

duty. Wines and spirits are similarly bottled in bond. If, however, it is desired to remove dutiable goods from a bonded warehouse into consumption, a form of *Warrant* for wet or dry goods, as the case may be, must be filled in and lodged at the Custom House, and duty must be tendered for the part of the consignment it is intended to remove.

Payment of Duty.

Duty on tea and coffee is payable on the weights recorded when the goods are warehoused. Duty on wines and spirits, which evaporate, is paid on the actual quantity taken out of store, so long as a fixed deficiency allowance has not been exceeded. Tobacco, also, loses weight through evaporation of the contained moisture, and duty is paid on the weight taken out of bond. The unit for payment on matches is the standard gross of 10,000 matches. When preparing an entry, the average number of matches in a box, and the actual number of boxes in a case, must be stated. From these data the number of standard gross is calculated, and duty is then payable—

On any number of matches in a box not exceeding 80 :	s. d.
per standard gross	5 2
On any number of matches in a box in excess of 80 :	
per standard gross	3 5

Care is important in declaring the average number of matches per box, since a count is taken and variations of more than 3 per cent may be penalized. Should a consignment declared "average 50 matches per box" prove to be "average 55," there would be suspicion that the merchant was trying to avoid payment of full duty. If, on the other hand, the actual average proved to be 45 or less, he would be regarded as attempting to deceive the public.

Duty is paid on sugar under a sliding scale, according to the degree of polarization. Many kinds of confectionery, ginger, marmalade, jams and fruit jellies, fruit preserved in sugar, sweetened condensed milk, and milk powder containing added sugar, are all subject to duty on account of the presence of sugar. Duty on certain preserved fruits imported in tins or bottles varies according as the fruits are in thick or thin syrup. Mixtures of dutiable and non-dutiable fruits are charged as though the whole were dutiable, unless a separate account of the non-dutiable fruit can be taken.

Cinematograph films are dutiable. Positives pay 1d. per linear ft., and negatives 5d. per ft., and dark-room examinations are sometimes undertaken by H.M. Customs to see that negatives are not hidden in a roll of positives. These few

No. 46 (Sale.) [Revised Edition.]

ENTRY FOR WAREHOUSING.

(Importation Code, para. 564, and Warehousing Code, para. 203)

Collector's No. and date.



Port

London
Millwall

Dock or Station

§Importer's Name
and Address

Arthur James & Co

Ship's Name

Date of Report

Port or Place of Shipment of Goods

Trafalgar

16 Nov^r 19

Drammens

Mark and Nos.	No of Packages	Description of Goods in accordance with the Official Import List	Quantity Net	* Value £	† Name of place whence Goods consigned
C.E.B. Blue Star	20	cases Safety Matches - each case containing thirty gross boxes - each box averaging fifty matches. - or four hundred and thirty two standard gross	432 gross	£200	Norway

Name and Address of §Consignor

Aktiebolag Hedsbø
GulskogenI enter the above Goods to be Warehoused in Millwall Wharf warehouse, and declare the above particulars to be true.

*NOTE.—(1). In the case of goods which are invoiced at a quoted price, the value to be stated in the Customs Entry should be the prime cost with the freight and insurance added ("c.i.f." value).

(2). When the goods are consigned for sale, the value to be given should be the latest sale value of such goods.

† The place whence the goods were consigned is not necessarily the place of origin, but it is the place from which the goods were procured by the importer, &c., the place of first ownership.

§ The consignee is the last owner of the goods at the place from which they were procured; and the importer is the person by whom they were so procured from the consignee.

Dated this 20th

day of Nov^r

192

{ (Signed) Arthur James & Co.

Importer or his Agent.

examples illustrate the importance of giving full and accurate details, and suggest some of the technical points involved for certain traders.

Most Customs duties are "specific"; that is, a definite sum is payable per cwt., per lb., or per gallon, etc. Some few articles, however, are subject to an *ad valorem* duty of 33½ per cent, which means that one-third of the invoice value of the goods is payable by way of duty. Special Customs entry forms are used for *ad valorem* goods, the principal of which are clocks, watches, motor-cars other than for commercial use, and musical instruments; and the original invoices must be produced for inspection.

Bill of Sight.

If enough facts are not to hand for a proper entry to be passed, importers may pass a Sight Entry. On a *Bill of Sight* form (No. 21, Sale), all known particulars are stated and followed by a declaration of inability to complete the entry. When the goods are landed, the importer inspects them in the presence of the Customs officer, and can then *perfect the sight*. Bill of Sight procedure should not lightly be adopted: it may mean delay and expense, since H.M. Customs are likely to open every package in a consignment so entered. It is useful when goods are ambiguously described as "Christmas presents," etc.

British Returns.

Goods may be rejected by an overseas buyer, or returned for repairs. When "free" goods so arrive, an ordinary free entry should be passed, and the words "British Returned Goods" added, and a declaration of the reason for the return of the goods may be demanded. Goods that, but for their British origin, would be dutiable are entered on the form suitable to their class, and an extra form, called a *Bill of Store*, is prepared. The *Bill of Store* describes the goods, states when and whence they were exported, and makes a formal request that they be re-admitted free of duty.

Imperial Preference.

Since 1919, certain goods of Empire growth, production, or manufacture have been admitted at a reduced rate of duty—usually five-sixths of the full rate. A claim for *Preference* has usually to be supported by a *Certificate of Origin*, which states, over the signature of the British Consul at the port of shipment or place of production, that the goods are the *bona fide* produce of the country named.

Baggage and Private Effects.

A simple form, known as a *Baggage Sufferance* (No. 99C), is used for the clearance of personal baggage, household goods that are part-used, and

private effects generally. Recourse may sometimes be necessary to the *Statutory Declaration for Plate imported for private use* (No. 56, Sale), and the *Owner's Declaration* in respect of personal or household effects liable to *Ad Valorem* duty but imported as Baggage (No. 104C).

Customs List.

When preparing entries, it is important to use the official terminology, to insert quantities in words where so requested, and to adopt the units of weight, measurement, or value desired by the Customs officials. A copy of the *Official Import List* should be obtained (price 1s.) through any bookseller, and the approved system of classification studied. The Customs staff will help decide the correct heading if serious doubt arises. There may be difficulty over proprietary articles, which should be described by their trade name, and also in the official language. When importing a new production, it is well to let the Customs analyse a sample, and take their advice as to the classification to be adopted. The importance of giving correct descriptions is emphasized by a notice prefatory to the Customs List, wherein importers are reminded that they may by law be called on to verify their entries by the production of invoices, bills of lading, or other documents, and are liable to penalties should inaccuracies be discovered. Should no entry be passed, or should a sight entry not be perfected, the Customs Officer may have the goods removed to the *King's Warehouse*, and one month after landing they may be sold. The importation of certain articles is entirely *prohibited*, and in other cases restrictions apply. Details can be gleaned from a good Customs Guide, or by enquiry at the Custom House.

Drawback.

When goods on which duty has been paid are re-exported, a *Drawback* or refund of the whole or part of the import duty may often be claimed. The shipper prepares a form known as a *Shipping Bill* and gives *Bond* for the due shipment of the goods. After the Examining Officer has certified that shipment has been completed, the sum due as Drawback can be obtained from the Collector of Customs. This principle reduces the disability suffered by a British merchant desirous to develop an *entrepôt* trade in, say, cocoa, coffee, or gramophones and records.

CHAPTER VIII

STORAGE AT DOCK OR WHARF

THERE are many ways of dealing with goods that reach this country by steamer. They can be stored near the place of discharge, carted, or carried by rail to their destination, or removed by



BILL OF SIGHT

Port of

Dock or Station

Importer's Name
and Address

London
Filbury
Joseph W. Graves
Tower Hill *Es*

Ship's Name	Rotation No.	Date of Report	Master's Name	Port or Place of shipment of Goods
<i>Brenda</i>	<i>19/2060</i>	<i>6/8/</i>	<i>Ellis</i>	<i>Alexandria</i>

Marks	Numbers	Number of Packages, with the best Description of the Goods the Importer is able to give
<i>J.W.G</i> <i>S</i>	<i>1/5</i>	<i>Five cases Christmas presents.</i>

I *Joseph W Graves, Importer* of the Goods above mentioned do hereby declare that I have not ~~(or that to the best of my knowledge he has not)~~ received sufficient Invoice, Bill of Lading, or other advice from whence the Quality, Quantity, or Value of the Goods above mentioned can be ascertained.

Dated this *10th* day of *August* 19

(Signed) *Joseph W. Graves*
Importer or his Agent.

(Signed) _____
Collector.

Dock or Station _____

Ex.

at

Date of Report

In _____ of Sight.

Rotation No.

Marks and Numbers	Place and country of destination in United Kingdom for Unmanu- factured Tobacco and Spirits only	Number of packages, quantity in words, and description of goods in accordance with the Official Import List	*Name of place whence goods consigned	†Value	Duty £ s. d.		

To the Surveyor
Sir,

To the Surveyor

Sir,

I request an extension

of time from

to _____ in order

to perfect sight.

Pro _____

N.B.—The usual declaration must be added in MS. This form is to be adapted for Free or Warehousing Entry.

* The place whence the goods were consigned is not necessarily the place of origin, but it is the place from which the goods were procured by the importer, i.e. the place of last ownership.

(1) In the case of goods which are invoiced at a quoted price, the value to be stated in this entry should be the prime cost, with the freight and insurance added ("c.i.f." value).

(2) When the goods are consigned for sale, the value to be given should be the latest sale value of such goods.

BAGGAGE SUFFERANCE INWARDS.

Port of *Liverpool*Ship's
Rotation No. } *22/6250*Importer *Victor Thomas*

Wharf, Dock, or Station	Ship's Name	Master	Port or Place whence imported
<i>Huskisson</i>	<i>Mizzie</i>	<i>—</i>	<i>Hamburg</i>
Marks and Numbers	Number and Description of Packages and Goods		
<i>V. Thomas</i> <i>10/14</i>	<i>Five packages personal effects (part used)</i>		

The above-mentioned Goods may be landed and examined. The particulars of examination are to be recorded hereon. Care is to be taken that duty is paid on any dutiable goods; if, however, the packages contain any such goods concealed, or any prohibited goods, they will be liable to seizure.

Dated this *20th* day of *August* 192...pro Collector.

barge, possibly to some canal-side factory. The importer will exercise his option after considering the ultimate purpose of the traffic, the conditions of its ownership, and the custom of the port. In London, much cargo is collected by craft for storage at wharves and warehouses along the riverside, and valuable cargo reaching the huge down-river docks is regularly brought up to the London and St. Katharine Docks for housing. At Liverpool, goods are placed in transit sheds and thence conveyed to the railways, or, where possible, direct delivery is made to trucks. Much of the permanent storage is in private hands, and distinct entirely from the dock premises. At Hull, a good deal of cargo goes over-side for craft delivery to premises along the Ouse or Trent. Some ports are only points of transit from ship to rail and *vice versa*, while others make a prominent feature of their warehousing business. Acquaintance with the possibilities of a port is therefore necessary if goods are to be handled to best advantage.

Consignment goods may have to be stored while a sale is being concluded. Dutiable goods must be placed in a bonded warehouse, unless the importer is ready to pay the duty and pass a prime entry. Free goods can be removed at the discretion of the importer directly they are clear of Customs, but it will often be good policy to save handling expenses by having them stored near the discharging berth.

It is a mistake to assume that because a boat enters dock or goes alongside a certain wharf, the goods will be automatically landed and stored, and that the importer need not disclose himself until he wants delivery. By good fortune this procedure may sometimes "pan out" correctly, but it should not be relied on, especially in times of congestion. When it is desired to store goods at the place of discharge, early notification should be sent to the dock or wharf staff so that the parcels may be claimed directly the ship starts working. This reduces the risk of Captain's Entry or other charges being incurred when goods are landed unclaimed, and enables special storage space in wine vaults, timber ponds, cool air stores, etc., to be reserved as necessary. Special conditions often surround the receipt of dangerous or objectionable cargo, and prospective importers should make timely enquiries to avoid needless expense.

If goods are to be removed by craft, prompt action is necessary, as the craft should be alongside directly the ship starts work. The parcel wanted is always "just under the hatches" if the barge is late, and by the time she arrives may be "landed in absence of application."

A good warehouse for imports should be *safe* from damp, fire, vermin, or pilferage; *economical* as to rent and delivery charges; *convenient* of access to buyers, and within a cheap cartage area of likely destinations for the goods.

If consignment goods be sold c.i.f. before

arrival, the duty of the importer is strictly completed when he hands the documents to his buyer, but, in practice, the importer often makes storage and delivery arrangements, acting now as the agent of the *buyer* and accepting his instructions for storage, should he have any preference. A c.i.f. buyer should always ascertain what storage arrangements have been made or are contemplated, otherwise he may be assuming an unintended financial responsibility that will be hard to repudiate.

Landing Account.

Importers who hold stocks at the docks and wharves naturally desire some official document describing the goods and notifying the exact place of storage. Such a document is the *Landing Account*, which is furnished to the owner when goods have been properly checked and taken to account. It bears the name and date of report of the vessel, the designation of the warehouse, bay or vault, and the marks, numbers, separate weights, net or gross, for each package (or for drafts of five or ten, according to trade custom). Remarks are also made as to the condition of the goods, such as "five boxes wet-stained," "one drum leaking," "wrappers torn and battens missing," and "all slightly sea-damaged." This information enables owners to claim on their underwriters if the marine policy offers hope of success. A "clean" Landing Account is one not bearing any such qualifying statement respecting condition. The holder of a "clean" Landing Account whose goods are delivered showing signs of damage has a *prima facie* claim against the warehouse keepers.

Possession of a Landing Account is no proof of ownership of the goods represented, since duplicate Landing Accounts can usually be obtained at a small charge. Importers usually file their Landing Accounts, and note thereon the issue of sub-orders when a parcel is sold piecemeal.

Weight Notes.

Weight Notes giving details similar to those furnished by the Landing Account, but containing no remarks as to condition, will be rendered on request. They should not, however, be lightly asked for, as, when dock rates do not include the service of weighing, the demand for a *Weight Note* may be interpreted as an instruction to weigh the goods and debit the owner for the service at scale rates.

Dock Warrants.

These, which should be carefully distinguished from Customs Warrants, are the only documents issued by a dock authority that can be considered a legal symbol for the goods represented. They are only issued on the request of the owners of goods. A *Warrant* certifies that goods, carefully

described as to class, nature, marks, numbers, gross landing weights and tare, date of importation and vessel, are stored in the warehouse stated to the order of the importer or his assigns by endorsement. Each warrant bears a 3d. legal stamp, and is issued, on payment of landing charges and lodgment of a released bill of lading or its equivalent, in favour of the owner of goods or any person he may nominate. Any holder may have the contents of one warrant divided into others for smaller quantities, provided he pays for any

according to the trade custom. In many trades, sales are carried on in reliance on the dock sample, and the arbitration of the sampler is often sought in cases of dispute as to quality between buyer and seller.

Dock Charges.

To many importers, dock charges remain a perpetual—but quite needless—mystery. The subject is not difficult, and the return to the student by way of transport economies is ample.



By permission

"Siren and Shipping"

TRANSIT SHEDS AT CARDIFF DOCKS

re-piling necessary to re-stack the goods to tally with the new warrants. Since the warrant is a legal symbol for goods, delivery of part of a consignment that is "on warrant" will only be made when the warrant is lodged, so that the quantity taken may be "written off." Duplicate warrants are never issued. A lost warrant must be advertised in certain papers, and an indemnity must be given before delivery of the goods can be taken.

Sampling.

The owner or anyone producing his written authority may inspect goods stored at a dock or wharf, during business hours. Where the warehousing business is cultivated, experts are employed who will draw samples of merchandise

Charges on goods passing through our ports fall naturally under two heads: *Tolls* collected on all goods, and *Charges* debited for such services as are actually performed.

Many publicly-controlled ports impose *Tolls* (known in London as *Port Rates*, and in Liverpool as *Dock and Town Dues*) on all inward or outward traffic, unless dealt with on transshipment terms. The proceeds go toward the upkeep of the river channels and banks, or for improvements in the general port facilities. The routine for payment of such *Toll* is generally associated with the passing of the Customs Entry. Special forms are filled in and presented at the appropriate desk in the dock office, where the calculation is checked and the money accepted, the entry forms being stamped to indicate that *Toll* has been paid.

Charges.

Dock companies issue Rate Books free of charge to responsible applicants. Such books should be studied so that errors in Debit Notes may be detected, and contracts and estimates worked out on the lowest possible basis. A *Royalty* or *Wharfage* charge, which, from the trader's standpoint, is little more than a *Toll*, is sometimes made for the privilege of passing goods over dock quays, even though no labour is provided. The argument is that the capital invested in dock construction must earn revenue from those who take advantage of its product.

Landing Rate, *Management Rate*, and *Consolidated Rate* are terms in general use. They are known collectively as *Prime Rates*, being the initial sums payable for the landing, warehousing, and sometimes the delivery of goods. A *Quay Rate*, lower than the normal *Landing Rate*, is sometimes fixed for perishable goods, provided they are cleared promptly. Most Prime Rates include a stated period of *Rent*, at the expiration of which further weekly rent is charged while the goods stay on hand. Extra work, such as sampling, cooping, re-packing, sorting, is charged for according to labour and materials.

At ports where warehousing business is not catered for, the charges are, of course, more simple.

Generally, the payment of a simple *wharfage* charge completes the merchant's obligation to the dock authority: cartage, storage, sampling, and rent having to be paid to other interests. This vitiates many comparisons of charges between one port and another.

Docks are either privately-owned, owned by railway companies or groups, or controlled by municipal or other public bodies or trusts, and the nature of the governing body materially affects the charging policy. A railway company may charge uneconomic dock charges to secure traffic for their rails. Docks under private ownership will naturally charge as much as their traffic will bear. Public bodies must pay their way by adjusting charges to cover their outgoings: beyond this point they do not usually wish to raise rates. Certain ports are rate-aided.

CHAPTER IX

COLLECTING AND DELIVERING GOODS

BESIDES having some knowledge of dock routine and charges, importers should understand the different methods of collecting and delivering goods. If goods arrive against orders, the importer may have to superintend their transit right through to domicile, and even when selling consignment goods, his help may often be required

in connection with delivery. Deferring for a moment the question of documents needed, the practical considerations will be examined.

The factors to consider when arranging removal of goods from ship's side or dock warehouse are: speed, safety, and economy. Delivery by horsed vans or motor lorries will be suitable for short journeys. Some big firms have their own fleet of vehicles and some internal machinery will exist for requisitioning a lorry or van. Failing this, a carman will be employed—a public carrier for small parcels, or a haulage contractor for large consignments. Some dock authorities will deliver goods within given radii, and their service is often worth a trial. Before making any big contract with a cartage firm, the extent of liability they propose to assume should be examined. The legal liability of a *Common Carrier* is great, but clauses limiting the responsibility often figure in the letter heading or are printed on cartage notes and similar documents.

Rail Carriage.

For lengthy journeys, transport by goods train is still most popular, though motor transport contractors, by prompt service and a highly-organized clearing house system, can often offer advantages, at any rate for hauls up to 100 miles. Rates lower than the standard railway rates, and direct conveyance from door to door without intermediate handlings, are among the advantages claimed for road transport.

If the railway goods service is to be used, the local goods agent will arrange to collect and forward goods to destination, but the merchant must prepare a *Consignment Note* giving full details of the traffic, and stating very carefully the name and address of the consignee and the station to which the goods are to be sent. It should also be clearly indicated who pays carriage, and whether the goods are to be carted to the given address or left at the station till called for, in which case they will be consigned *to the order* of the person who will call. Some knowledge of railway rates is desirable though the agent will quote.

For railway rate purposes, goods have been classified under eight sections, A, B, C, 1, 2, 3, 4 and 5: Class A being the lowest in value. The *General Railway Classification* (G.R.C.) is an alphabetical list showing the classification of most articles. Maximum mileage charges for each class, and service and station terminal charges, can be ascertained, and tables of distances can be consulted at goods stations, so that the normal rate per ton can be calculated between any two stations. Many exceptional rates have been applied to encourage special trades, in competition with coastwise shipping, or to remove inequalities between competing ports. Owing to the war, the maximum charging powers have been temporarily increased, but the whole question of

railway rates—and, indeed, the railway service generally—is under review as a result of the Railways Act, 1921. With the object of eliminating the exceptional rates, a new classification is being prepared which will increase the number of classes from eight to twenty.

Goods are usually consigned at *Company's Risk*, except that certain articles are accepted at *Owner's Risk*, a special Consignment Note being signed that relieves the company of responsibility except for *wilful* misconduct of their servants.

If several different rates exist for goods of the same general character, the highest rate applicable will be charged when there is any doubt about the exact description of goods. It is therefore important to give as full details as possible, and to study the actual terminology used in the G.R.C.

Many docks are rail-connected, that is, the railway lines are taken right alongside the dock quays and warehouses, so that direct delivery can be made *ex* ship or warehouse to railway truck. In such cases, the dock company may, on behalf of merchants, consign goods as directed, or they may require merchants to send them Consignment Notes with their delivery orders. In any case, such facilities are well worth exploiting in order to achieve economy in "delivered" costs.

Craft.

It may sometimes be well to consider the possible advantage of delivery by craft, where the destination favours such a method. Goods may be "delivered overside" or lifted direct from ship to craft lying alongside, thus reducing both handling and cost, or goods already landed and stored may be re-delivered to craft. The latter course is not usually desirable unless large quantities are being dealt with, since the labour cost for craft delivery may be higher than for land delivery, despite the lower cost of the actual lighterage. Again, unless there is a convenient craft berth, it may be that the loading of a barge may have to await the departure of a larger vessel that is occupying the quay berth. These considerations should be looked into in each case before a decision is reached.

Overside Delivery.

Prompt instructions must be given to the lighterman if goods are to be taken overside. If the bill of lading has not arrived, a Provisional Release should be taken up, but when the actual bill of lading is received it must be released and lodged with the lighterman or taken straight to the vessel so that the craft, when loaded, will be allowed to leave. It is also important to pass the Customs Entry promptly, and lodge the duplicate warrant on board, so that the examining officer may clear the goods. Briefly, then, the essential to overside delivery is a good understanding with the lighterman, and the prompt

lodgment of documents, so that delay and demurrage charges may be avoided.

The lighterman should give a receipt for goods taken into his craft, but in some ports he may in his discretion leave dock on a *Demand Pass*, without giving any receipt. This might be done when the tally was disputed, or when, in the absence of the ship's clerk, the lighterman wanted to leave dock on a particular tide. The trader should remember that the *Demand Pass* is regarded as the equivalent of a "clean" receipt, and if any shortage transpires at the unloading of the barge, no claim can be made against the ship-owner. Disputes arise when lightermen consider goods placed in their craft are short or imperfect, but the ship's clerk declines to take a clausured receipt, and lightermen will not go out on *Demand Pass* for fear of vitiating their principal's interests. The best way out of the deadlock—failing mediation at the ship-broker's office—is for the lighterman to sign as required "under protest," remove his craft, and at once make formal written protest to the ship-owner.

Getting Possession of Goods.

Beside attending to the Customs formalities and paying the freight, it will be necessary to satisfy the proprietors of the dock or wharf before goods can be removed from their custody, and delivery will only be allowed against the production of the proper documents. Since ownership in goods can be transferred by a mere endorsement on the bill of lading or a Delivery Order, dock clerks are bound to exercise great care in permitting delivery, satisfying themselves that a correct chain of endorsement exists from the original importer to the ultimate applicant. Yet the operation of this principle rouses many unwarranted expletives. A merchant will send a van for goods for which no bill of lading has been lodged, and grumble about "red tape" when demur is made. A single experience of the reverse kind should educate him. Once let a load of *his* goods get away, by some mischance, to an unauthorized applicant, and the position will quickly be grasped. The dock staff are impartial custodians, whose business it is simply to see that goods are delivered to the rightful owner, and even *he* must prove his right.

Delivery Order.

The Delivery Order is a document whose title is self-explanatory. It may take the form of an ordinary business letter, of a printed form in which requisite details are inserted, or it may be just an endorsement on the bill of lading. The Delivery Order quotes the marks, numbers, quantity, and description of the goods in question, the name of the importing ship and its rotation number, and instructs the ship-owner, warehouse-keeper, or dock or wharf manager to deliver the goods to a named firm. Definite instructions are

given as to payment of charges, a *prompt date* usually being quoted after which responsibility devolves on the buyer. The following standard wording is generally found suitable—

To the Superintendent of the *King George V Dock*.

12th September, 192—

Sir,

Please _____ deliver to *J. Williams' motor lorry* _____
the undermentioned packages ex _____ *City of Brisbane* _____
Master _____ from _____ *Adelaide* _____
Entd. by _____ *selves* _____ on _____ *9th April, 192—* _____
Charges from _____ *24th Sept., 192—* to be paid by _____ *bearer*.

Mark	Nos.	(Quantity and description of goods to be written in words, at length.)
<i>J. A. 3468 D.</i>	1 20	<i>Twenty bales Wool.</i> <i>Brown, Barnes & Co., per A. G. Morrison, Manager.</i>

Transfer Order.

When an importer sells goods "*ex wharf*" he is not directly concerned with removing them. In such a case his duty would be completed by the issue of a *Transfer Order* instead of a *Delivery Order*. On a form similar to that shown above, the docks would be directed to *hold to the order* of the customer (named) the goods described. The buyer may retain this transfer until he is ready to collect the goods, when it will be presented along with his own *Delivery Order* in favour of his carman; or he may endorse it on to some third party. Some firms notify the docks of the issue of a *Transfer Order*, or send them a carbon copy of such order. This is desirable, though not essential. It is also advisable for a buyer who receives a *Transfer* to ascertain that the goods represented are actually on hand. For safety's sake, it may quite well be endorsed and lodged at once. Cases have been known where a trustful buyer, having held tightly on to a *Transfer Order* for over a year without troubling to inspect the goods, found, when he ultimately called for delivery that they had long since been cleared by the fraudulent salesman on other orders. Had he promptly advised the dock that he held a *Transfer*, further enquiries would, of course, have been made before the goods were allowed to go.

The quoting of full particulars, including ship's name and date of report, on all *Delivery* or *Transfer Orders*, is very important. Small importers who fail to visualize the extent of the docks, often send polite notes asking for the delivery of "our bale of paper," omitting essentials such as ship's name and date, marks, numbers, etc., and feel aggrieved that some octopus-like arm, with power of divination, is not instantly swung out to grip the desired bale! Without appreciating the inconsistency,

the same men will solemnly insert a prodigious reference number at the head of their letter! Attention to detail will go far to obviate annoying delays, and before sending a van for goods, the importer should satisfy himself (1) that documents showing a complete chain of transfer have either been lodged or are in carman's possession; (2) that goods are or will be clear of Customs; and (3) that the ship-owner's stop for freight has been or will be removed.

Shortages.

Some business men lead one to think their office hours are chiefly occupied in wearisome and long-drawn-out disputes over damages and shortages. If this is indeed the case, such men would do well to study the legal position more carefully, so that needless correspondence may be avoided. Even though the other parties to a dispute may not be over-prompt in replying—on account of the channels through which enquiries often have to pass—traders should at least see to it that no time is lost at the start through "fuddling." The important point is to consider the question at once, and go straight to the right party before the matter is stale enough to be easily shelved. Should signs of damage or pilferage be detected at the landing of the goods, responsibility should rest with the underwriter or the ship-owner; which careful inspection of the Insurance Policy and the bill of lading should disclose. When a clean bill of lading is held and the parcel turns out incomplete, a claim for the missing packages should be rendered to the ship-owner.

If the ship's clerk has secured a clean receipt for goods that reach their destination damaged, the position is not so clear. Yet the question is simply one of signature and proof. The lighter-man, carman, or dock authority who gave a clean receipt to the ship, must have obtained—or attempted to obtain—a similar clearance from the party to whom they handed over the goods. A railway carman collects from the docks, and places goods on rail, and a receipt is eventually obtained from the provincial customer. An enquiry of each party in rotation, asking what receipt is held for the parcel, should rapidly locate the responsibility; and then a claim based on the fair market value of the missing goods, or of the proportion damaged, should be accorded prompt settlement. The letter headings of some transport agencies contain omnibus disclaimers of responsibility, but too slavish regard need not always be paid them. They have not always secured legal support when challenged.

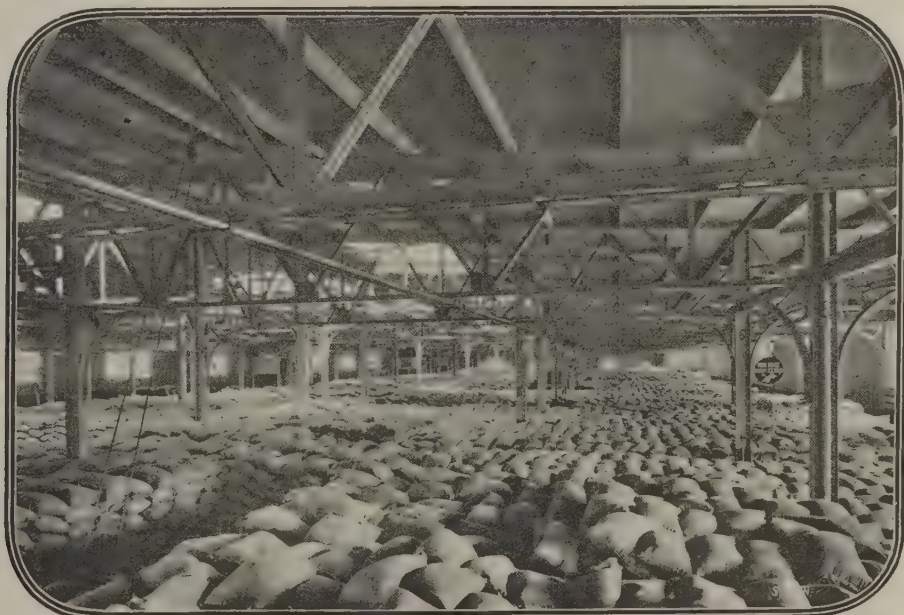
Considerable tact is needed when customers claim allowances for damage, deterioration, or on the ground that goods are not up to sample. The personality of the customer should be considered, and the likelihood that the claim is a "try on," which, if firmly resisted, will be withdrawn.

Unfortunately, complaints made by distant customers are not always fully justified, and a good deal of "hard swearing" may be couched in polite language. When the market has fallen against some buyers, they are apt to adopt any expedient to reject the goods or secure a substantial allowance, and the beginner faced with such a client is in an unenviable position. He naturally does not wish to start by offending a man who may become a large buyer, yet by meeting the claim in full he may easily wipe out his profit on the deal. Detailed rules cannot, of

CHAPTER X

SPECIAL POST-WAR LEGISLATION

Two important Acts of Parliament that were passed in 1921 add materially to the worries of the importer, who previously had to comply with Customs regulations that, compared with those in many foreign countries, were simple. These measures are specially dealt with hereunder, all reference to them having been omitted from the chapter on Customs clearance.



By permission

"Syren and Shipping"

A CARGO OF 8,700 TONS OF RAW SUGAR ON THE UPPER FLOOR OF THE MUNICIPAL WHARF, PHILADELPHIA

course, be given, but when in doubt it is safer at first to err on the side of generosity, waiting to take a firm line until a buyer has disclosed himself to be a habitual "grouser."

There is the further difficulty that a man whose claim is fully justified will be seriously offended at the least hint or suggestion that he is exaggerating. Whenever the distance permits, a good impression can be made by making a prompt call to inspect the damaged goods and express suitable regret. Swollen claims may then be detected, and a tactful man will use every endeavour to compromise on the spot and leave behind him a friend. From this angle, business may be said to depend on co-operation and compromise. Only when some principle is at stake can the importer afford to be adamant.

The German Reparation (Recovery) Act, 1921.

This is designed to secure from Germany, by a simple routine, a *pro rata* payment to our National Exchequer for each consignment of goods we buy from them. As from 1st April, 1921, a 50 per cent levy had to be paid on each parcel of goods of German origin, or consigned from Germany, the amount of the levy being deducted from the sum remitted to the German supplier. The measure failed to work in this form, and, by way of compromise, the proportion payable was quickly reduced to 26 per cent of the invoice value. It was also found that attempt to enforce payment on every article that might have originated in or been sent *via* Germany was impracticable, so the



No. 140 (Sale).

Entry and Statement for Free Goods, and Statement for Dutiable Goods, subject to the operation of the German Reparation (Recovery) Act, 1921.

Port of Importation } London Station or Warehouse } King George

Collector's Number and Date.

G.R.R. Entry No. and Date.

Name and Address of (a) Importer } Mr. Call, Stangate Rd.
Crayford Rd. Islington

Customs Entry No. and Date.

Name and Address of Merchant making G.R.R. payment } Joshua Reynolds & Co
12 Fenchurch Avenue Ct.

Name and Address of (a) Consignor } Otto Friedrichs, Wilhelmstrasse, Berlin

Ship's Name	Date of Report	Rotation	Port or Place of Shipment of Goods					
<u>Jeannie Lawson</u>	<u>10 May</u>	<u>22/267</u>	<u>Bremen</u>					
Record of Officer's Examination of Free Goods	Marks and Nos	No. of Packages	(b) Quantity in words, description of Goods, in accordance with the Official Import List, and name of place whence consigned	Net Quantity in figures	(c) Value C.I.F. £ s. d.	(d) Value for G.R.R. including the amount payable to the Commissioners of C. & E. £ s. d.	Amount payable to rate Commissioners of Customs and Excise £ s. d.	Total amount which has been or will be paid or credited to the foreign supplier £ s. d.
	<u>M.S.</u> <u>2161</u> <u>X</u>	<u>6</u>	<u>Six cases</u> <u>wrapping paper,</u> <u>unpacked</u>	<u>12 cwt</u>	<u>33</u>	<u>30</u>	<u>7 16</u>	<u>22 14</u>
Included in Return to A & C. G.								
_____ Officer								
_____ Date.								
Total amount payable to the Commissioners of Customs and Excise under the German Reparation (Recovery) Act, 1921.						<u>£ 7. 16.</u>		

(c) I [enter the above Goods as free of duty and] declare the above particulars to be true.

Dated this 15th day of May 1922
John Williams, clerk to
(Signed) J. Reynolds & Co
Importer or Agent. (f)

Officer of Customs and Excise.

N.B.—(a) The consignor is the last owner of the goods at the place from which they were procured, and the Importer is the person by whom they were procured from the consignor.

(b) The trade name of the articles must be given in a list, together with the descriptions approved in the official Import List. The original invoice giving details of the goods of each description, must be presented with this form and if the Importer wishes the invoice to be returned to him he must also produce a complete copy for retention by the officer of Customs and Excise.

(c) In the case of goods which are invoiced at a quoted price the value to be entered in this column should be the prime cost with freight and insurance added. When the goods are consigned for sale, the value to be entered in this column should be the latest sale value of such goods. This value need not be given in the case of dutiable goods ex ship or of any goods ex parcel post.

(d) The value required to be stated in this column is the amount which an Importer would give for the goods if the goods were delivered to him at the place of importation excluding freight and insurance, but including the amount payable to the commissioners of Customs and Excise under the German Reparation (Recovery) Act, 1921.

(e) The words in brackets should be deleted when inapplicable.

(f) Any person claiming to act as Agent for an Importer must produce a written authority from the person on whose behalf he claims to act.

current regulations make the levy payable only in respect of goods *first consigned from Germany*. In this emasculated form, the Act appears to be working more smoothly.

Goods of German make shipped to the United Kingdom *via* another country are regarded as consigned from Germany, unless they have been the subject of a genuine sale to an independent purchaser in the intermediate country.

Clearance of German Goods.

A new Customs Form (No. 140, Sale) is available, and two copies must be filled in. The form has been several times revised and improved, and the latest issue combines in one document the functions of the Free Entry and the Reparation statement. With free goods, therefore, no Customs Entry form is needed; the 140 (Sale) alone suffices, when carefully filled in. Both the c.i.f. and the f.o.b. values must be inserted, the calculation of 26 per cent being made on the latter. Invoice prices quoted in marks must be converted into sterling at the rate of exchange current on the date of report of the importing ship. The forms, when complete, are tendered at the Custom House, along with the original invoice and a copy (for retention if desired by the Customs officer), and cheque, Customs transfer, or cash to pay the levy. When the documents are checked and payment accepted, an official receipt is issued that can be sent to the shipper as evidence of payment, his invoice being short paid by that amount.

The procedure for dutiable goods only differs to the extent that the normal entry forms have to be furnished in addition to the special forms No. 140 (Sale), the payments of duty and levy being kept distinct.

Goods Exempted.

To gain exemption for European goods other than those first consigned from Germany, the following statement must be added to the Customs Entry—

"I declare that the merchandise shown in this entry was not first consigned from Germany to the United Kingdom."

Certificates of Origin or other evidence may be called for in doubtful cases. Goods from places outside Europe are at present admitted without special formality under this Act.

Goods in transit, or transhipment goods, do not come within the scope of the Act if dealt with under the appropriate regulations. By using at time of exportation the form No. 141 (Sale), a *Schedule of Goods Exported for the Purpose of Undergoing a Process in Germany*, such goods, on re-entry, are only mulcted in the 26 per cent payment on the value of the work put into them in Germany, i.e. the difference between the exported and the imported value.

Goods sent to Germany and returned unaltered and without change of ownership, are granted exemption providing evidence in the form of bills of lading, invoices, and correspondence can be produced. Empty packages returned from Germany are dealt with under this ruling.

The Safeguarding of Industries Act, 1921.

This Act is still arousing controversy. It has two parts: the first concerns the collection of a "Key Industry Duty" of one-third of the c.i.f. value on certain specified goods when of other than Empire origin; the second deals with the prevention of "dumping," and outlines a machinery of appeal under which new articles can be added to the list.

Recent events proved the vital importance to the country of certain trades, and the policy of fostering home production in what are termed "Key" industries has been adopted. Goods subject to the 33½ per cent duty are thus described in the Schedule to the Act—

(a) Optical glass and optical elements, whether finished or not, microscopes, field and opera glasses, theodolites, sextants, spectroscopes and other optical instruments.

(b) Beakers, flasks, burettes, measuring cylinders, thermometers, tubing, and other scientific glassware and lamp-blown ware, evaporating dishes, crucibles, combustion boats, and other laboratory porcelain.

(c) Galvanometers, pyrometers, electroscopes, barometers, analytical and other precision balances, and other scientific instruments, gauges, and measuring instruments of precision of the types used in engineering machine shops and viewing rooms, whether for use in such shops or rooms or not.

(d) Wireless valves and similar rectifiers, and vacuum tubes.

(e) Ignition magnetos and permanent magnets.

(f) Arc-lamp carbons.

(g) Hosiery latch needles.

(h) Metallic tungsten, ferro-tungsten and manufactured products of metallic tungsten, and compounds (not including ores or minerals) of thorium, cerium and the other rare earth metals.

(i) All synthetic organic chemicals (other than synthetic organic dyestuffs, colours, and colouring matters imported for use as such, and organic intermediate products imported for their manufacture), analytical re-agents, all other fine chemicals (except sulphate of quinine, of vegetable origin) and chemicals manufactured by fermentation processes.

This summary is amplified in the official list, which details over 7,000 articles that are subject to the Act. Many amendments, both by way of addition and deletion, have already been made on the appeal of interested bodies of traders.

How to Clear Goods.

The *ad valorem* entry form (No. 107, Sale) has been specially revised to serve the purpose of the Key Industry Duty collection. Such form must be completed in duplicate, the goods being described according to the Official Import List, and also in conformity with the Schedule to the Act. The "Value" required in this case is the c.i.f. value, or, as the official instruction has it,

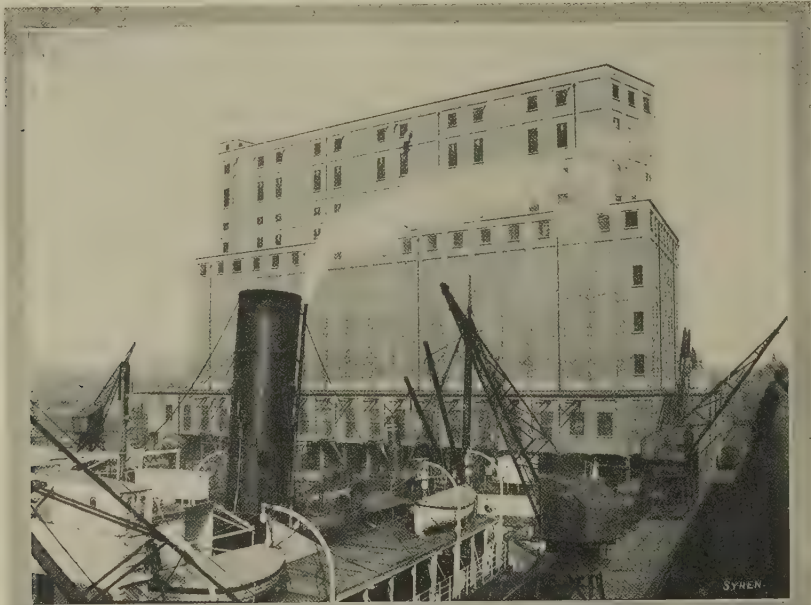
"the price an importer would give . . . if the article were delivered freight and insurance paid in bond at the port of importation." The Act provides that where other Customs duties are chargeable on goods, Key Industry duty is only to be charged up to the amount by which it exceeds the other duties. Reparation payment, being termed a "levy" and not a "duty," is, however, chargeable in addition when it applies.

Prices stated in foreign currency should be

difficulty may be experienced in securing the desired exemption on re-entry.

Drawback, equal to the full amount of duty paid, is allowed when goods on which Key Industry Duty has been paid are exported as merchandise, provided the goods have not meanwhile been used. Such goods must be inspected by the Customs before shipment.

No Deferred Payments. Key Industry Duty is payable on importation, and cannot be postponed



By permission

GRAIN ELEVATORS, MANCHESTER

"Syren and Shipping"

converted into British currency at the rate of exchange ruling on the day the importing ship reports. Original invoices may have to be produced in support of the statement of value, and copies should be taken for retention by the Customs.

Goods Exempted.

Key Industry Duty is not charged on goods of British Empire growth, manufacture, or production. Such goods are entered on the revised form, No. 107 (Sale), as free of duty, subject to a Certificate of Origin or other evidence being produced. Goods in transit, or for transhipment, are also exempt. *Re-imports* can be exempted if H.M. Customs are satisfied that the goods were not imported prior to exportation. Goods likely to be re-imported should be produced for Customs inspection before shipment from this country, otherwise

by using bonded storage, unless goods are subject also to other Customs duties.

Articles that have "Lost Their Identity."

In the case of compounds of which articles liable to Key Industry Duty are ingredients or form part, duty is not payable in respect of the compound article "if the compound is of such a nature that the article liable to duty has lost its identity." The famous "Doll's Eye" controversy arose from this ruling, and was settled by a provision that payment should be waived on toys and fancy goods dutiable under Part I of the Act only as containing dutiable articles as parts or ingredients "where the value of such dutiable parts can be proved to be less than 10 per cent of the total value of the whole article."

CHAPTER XI

INSURANCE POINTS FOR IMPORTERS

THE main principles of insurance are fairly well known, but Marine Insurance, which contemplates an indemnity for loss or damage to a vessel and its cargo during a voyage, gives rise to difficult problems needing careful thought. The ship-owner attends to the insurance of his vessel, and each shipper or importer should secure adequate cover for his goods. The word "adequate" is used advisedly, since a novice seeking economies is tempted to effect them by "under insurance," or declaring the value at less than the correct figure, or the bare figure without adding freight costs. This may prove a costly economy, since the Marine Insurance Act (Section 71) defines the measure of indemnity for partial loss as being "such proportion of the sum fixed by the policy, in the case of a valued policy, or of the insurable value in the case of an unvalued policy, as the difference between the gross sound and damaged values at the place of arrival bears to the gross sound value." In simple words, this means that the full measure of a loss will not be made good unless the goods are insured for their total value. Goods worth £2,000 insured for £1,000 only are "under insured," and damage assessed at 50 per cent of the value would be compensated by 50 per cent only of the sum assured, i.e. by £500.

The Marine Policy may arrive with the other documents, or may be taken out on this side. Broadly stated, it is the function of the Marine Policy to assume those risks that are declined by the ship-owner under the terms of his bills of lading, but it is well to note exactly what is covered, as many exceptions, qualifications, and provisos—no doubt made in good faith by the underwriters—seem to creep in and trip the unwary where a concrete claim is preferred.

A Marine Policy should cover goods until safely delivered into warehouse at port of destination. Craft risks will thus be covered when the use of craft is essential to the complete delivery, but goods once placed in warehouse and later re-delivered to craft cannot be assumed covered under the Marine Policy.

Average.

The word "average" bears, in insurance circles, its original meaning of "sea risk or loss." Insurance may be effected either f.p.a. (free of particular average), or w.p.a. (with particular average). It is usually sufficient to insure low or medium value cargo f.p.a., that is, against total loss or serious damage arising from fire, shipwreck, or collision. Produce peculiarly liable to damage, and delicate and valuable goods generally, are

insured w.p.a., and claims are paid for any accidental damage, however slight. In practice, this statement needs to be qualified, since insurance w.p.a., but with a *franchise*, is customary in many trades. A franchise of 3 per cent means that, despite the general clauses of the policy, the insured agrees to bear any loss not exceeding 3 per cent of the insured value. When, however, a loss exceeds the franchise, it is paid in full; the

GENERAL AVERAGE DEPOSIT RECEIPT

LLOYD'S FORM

6th October, 192..

Vessel Inaba Maru from Yokohama, etc. to London

Nature and Date of Accident Fire whilst at Penang

RECEIVED from Messrs. Clark & Renton the sum of Thirty pounds only deposit on account of General Average and/or Salvage and/or Charges, being 20 per cent on £150 provisionally adopted as the net arrived value of the following goods, viz.—

A & L	0-1	} Bales Bamboos 580/4-5 cases Lacq. ware	[Marks and Nos. and description of interest to be inserted here.]
	1-2		
	2-6		
	3-12		

B/L No. C 11 & 13 Kobe
Nippon Yusen Kaisha
(London Branch) } Trustees.
W. Murphy.

£30.

N.B.—The refund, if any, will be made only to the bearer of, and in exchange for this Receipt, and will be the whole balance of the deposit after satisfying the General Average and/or Salvage and/or Charges, without deduction or set off of any other claims of the Ship-owner against the Shipper or Consignee.

The General Average will be adjusted in 33 Cornhill, E.C.3, and the Ship-owners have given the necessary instructions to Messrs. William Richards & Son, Average Adjusters.

underwriter does not merely pay the difference between the franchise and the actual loss. Special rules are adopted to suit certain articles, e.g. wool is insured "w.a. if amounting to 3 per cent on each bale." Owing to the large consignments shipped for one interest-damage, though not reaching 3 per cent of the insured value of the whole parcel, might yet mean a serious loss to the consignee, and by mutual discussion the solution quoted has been reached.

General Average.

The original purpose of marine insurance was to indemnify owners of cargo sacrificed in the general interest: particular average is a later refinement. When threatened danger had to be averted by the *jettison* (or throwing overboard) of cargo, it was seen to be fair that those whose

interests were saved should reimburse the losers. This basic principle still holds, and *General Average* is also declared where damage has occurred to cargo through fire, wreck, grounding, or collision. When the vessel reaches port, an *Average Adjuster* is called upon to apportion the loss between the various parties concerned with the ship, freight, and cargo, and each merchant whose goods are fully insured recovers his general average contribution from his insurance company.

Goods detained pending the average adjustment are released by the ship-owner when a signature has been secured to an *Average Bond*. Each consignee must state thereon the net arrived value of his goods, must pay as deposit a stated percentage of the declared value, and undertake to pay any balance later required by the average adjuster. The losers are reimbursed from the proceeds of this levy, though they also bear their *pro rata* share of the contribution. Lloyd's standard form of *Average Bond*, with its companion form "Lloyd's General Average Deposit Receipt," are in general use.

An early opportunity should be taken of inspecting imported goods, or ascertaining from the custodians if they have suffered any damage on the journey. Docks and wharves will issue, if required, a *Certificate of Damage* when it is intended to claim against the Marine Policy. The insurance company will have the goods reported on by a surveyor, who will suggest the most economical means of settling the claim. Sale expenses, re-packing charges, survey fees, or extra dock charges incurred through the goods arriving damaged, are recoverable from the insurance company.

Fire Insurance.

Under certain conditions, docks, wharves, and railway companies are prepared to cover goods in their custody against fire risks. The point should not be lost sight of, particularly when valuable or hazardous goods are in question. Stocks of grain, seed, and jute stored in dock warehouses in London are covered against fire at a cost included in the dock charges, but responsibility for the insurance of other goods lies with the importer.

Many sound "tariff" offices and outside companies will readily undertake the risks, and issue without delay a *Cover Note* for any desired period. The proposal should state the nature of the goods, the value, and the place where stored, and also the period for which they are required to be covered. The *Policy* will follow at convenience, but the *Cover Note* of a reputable office is sufficient security that the risk has been assumed. Fire insurance premiums vary according to the nature of the goods and the proposed place of storage. By doing all they can to meet the reasonable

requirements of the insurance companies in matters of safety precautions, etc., the owners of docks, wharves, and public warehouses are able to secure for their clients the advantage of low rates of fire premium.

CHAPTER XII

SELLING GOODS

It may be well to describe in greater detail the process of selling goods, since this, after all, is the vital aim of every importer, to which the necessary work of clearing goods through Customs and settling with the ship-owner only leads up. The methods of selling vary as widely as the classes of commodities, so that general principles only can be indicated.

This country's imports, as has already been seen, consist largely of foodstuffs and raw materials, consequently the majority of importers will be engaged in one or other of the trades coming under this head. Such traders have the satisfaction of knowing that they are spared the task of creating a market. Our country, having become industrial rather than agricultural, is not able to support her ever-increasing population without drawing heavily on the produce of those wide plains and fertile areas across the seas. Huge ship-loads of foodstuffs will continue to arrive, and the problem of the importer is not so much to create new demands as to gain a footing in an existing and clamorous market. In order to divert part of the stream of commerce through his own particular channels, an importer must study the markets, get to know the criteria of quality, and try to achieve economies in handling, so that his goods may be offered at tempting rates. This maxim holds, even when handling "consignment" goods on which the importer takes a commission on the price obtained. Though naturally wishing to get the highest possible price, he is bound to follow the market very largely, or risk losing his buyers.

Markets.

Deals in raw materials and foodstuffs are often made by private treaty after a personal inspection at the docks, but the majority of sales are effected at certain recognized markets and salerooms, mostly in London. Here are some of the best known markets—

Grain and Seed	The Corn Exchange (Old and New), Mark Lane, London
Wool	Wool Exchange, Coleman Street, London; and at Liverpool, Bradford, and Hull. (Bales shown at London Dock)
Provisions and Dairy Produce	The Home and Foreign Produce Exchange, Tooley Street, London

Tea, Coffee, Sugar, Spices, Drugs, and Colonial and East India produce generally	The Commercial Salerooms, Mincing Lane, London
Ivory, Curios, and Japan Ware	The Commercial Salerooms, Mincing Lane, London. (Goods shown at Cutler Street Warehouse)
Cotton	The Cotton Exchange, Liverpool; and in Manchester
Green Fruit (bananas, tomatoes, potatoes, onions, etc.)	Pudding Lane and Covent Garden, London
Metals	The Metal Exchange, Whittington Avenue, London
Coal	The Coal Exchange, Lower Thames Street, London
Hops	The Hop Exchange, Southwark Street, London

The principal markets are in session almost daily, but valuable articles like ivory and shells are sold periodically at public auction. Wool sales are held, in series, at Coleman Street, London.

The Corn Exchange, London, is open three days weekly. The chief London importers rent stands in the market, on which are displayed small samples of the various classes of grain offered; the actual stocks being kept in the dock warehouses a few miles away. The advantage of this arrangement to a grain buyer will be apparent at once. Instead of struggling through busy streets to call at a score of different offices, journeying to the docks to inspect a bulk pile that seems likely to suit him, and returning to give an order at the first office called on, the buyer goes straight to Mark Lane. Entering the Exchange, he can wander from stall to stall, greeting acquaintances, examining a wide range of samples and comparing the prices, and enjoying in the "Members' Room" the ordinary club facilities. Having placed his order for 1,000 quarters from the parcel that suits him best, he can obtain his Transfer Order, endorse on it his own delivery instructions, and leave the document at the dock authority's stall before leaving the market, confident that the goods will be put on rail at the earliest possible moment.

Public Auction.

Certain classes of goods are disposed of by *public auction*. Usually, samples can be seen beforehand at brokers' offices, at the market stalls, or at the usual show floor at the docks or wharves. Japanese curios, for instance, are placed on show

at Cutler Street Warehouse, and sold at the Commercial Salerooms, Mincing Lane, London. Prior to a wool sale, certain bales from each parcel are placed on show at London Dock, top floors with North lights being selected as show rooms. Expert wool buyers from the provinces and the Continent will inspect the samples and note in their printed catalogues the limits they are prepared to offer. At the Wool Exchange, the sale will be conducted entirely by catalogue. When the number of the lot is announced by the auctioneer, rapid shouts of, say, "10," "12," "14," "16," etc., will be heard—each bid being an offer of so many pence per pound for the lot on sale.



By permission

HOBART DOCKS

"Syren and Shipping"

Brokers.

The importer who is called upon to deal with a class of goods with which he is unfamiliar will often place the sale in the hands of an expert broker, whose knowledge of markets and conditions should enable the best prices to be obtained. The person who buys through a recognized broker is also safeguarded by the assurance that the rules of the trade association will be enforced.

Importers and brokers make a close study of the Market Reports and *Prices Current*, furnished in the daily newspapers and trade journals. For the produce trades, the *Public Ledger* is a useful bi-weekly that gives market facts and statistics.

When a broker has sold goods for an importer he will render an *Account Sales*, setting out the gross proceeds of the sale, and deducting such items as sampling, portorage, public sale expenses, and his own percentage for brokerage, and remit the net amount due.

ACCOUNT SALES.

LONDON.

---30th April---19--

ACCOUNT SALE of ---28 casks Tallow, ex "Ruapehu"
from Melbourne-----Sold for Account of ---Messrs.

Dodson & Fogg-----

By CANNING & MORRISON, Brokers.

Prompt---14th May,---19--

A F F Co. } 28 casks.
Southdown }

		cwt.		qrs.		lb.				£		s.		d.	
Lots 78/83	Weight	231	3	12	gross										
		2	-		draft										
		231	1	12											
		21	3	-	tare 87 lb. each										
		209	2	12	at 34s. per cwt.		356	6	8						
Charges—							£	s.	d.						
Sampling at 4d. per cask								9	4						
Proportion Public Sale Ex-															
penses							1	4	-						
Brokerage $\frac{1}{2}$ %							1	15	8						
Net proceeds							£352	17	8						

E. & O.E.,
London.

CHAPTER XIII

SETTLING WITH THE
SHIPPER

THE final problem to be thought of in connection with an individual parcel of goods is the settlement of accounts between shipper and importer, to their mutual satisfaction. When goods have been sent in response to firm orders, the shipper's invoice will set out the sum due, and should also describe the terms and method of payment. Of course, Postal Orders and cheques, with which every business man is familiar, will not help when an account for several hundred pounds has to be paid to a shipper in Canada or Greece, and the utility of the International Money Order is only very limited.

Bills of Exchange.

The great bulk of overseas commercial transactions are settled by *Bills of Exchange*, which are defined as follows in the Bills of Exchange Act, 1882—

An unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand or at a fixed or determinable future time a sum certain in money to, or to the order of, a specified person, or to bearer.

The obligation to pay is thus put in a concrete form, and bills are drawn either on demand (at

sight), at a stated period after date, or after sight, or "at usance."

In the solution of international indebtedness by means of bills of exchange the banks are the vital pivots. Without them the present complicated exchange system, and the virtual barter between foreign countries, could not possibly run smoothly. The state of confusion likely to arise if each buyer in this country had to ship gold and silver coins in satisfaction of his invoice, can be imagined. One doubts if enough gold would be available, and, even if it were, whether it would prove any more acceptable to its recipients than would heavy bags of francs, pesetas, and dollars to our makers of textiles. No: there is no doubt that our present system, awkward as it sometimes proves, is the best so far devised.

Instead of attempting to pay your supplier in cash, therefore, you will agree to meet his drafts, say, "30 days after sight." A "set" of bills of exchange will be drawn on you by your shipper, making as payee his agent in this country, or the banking house who are correspondents of his own bank. The "set" of bills will be handed, along with the other shipping documents in some cases, to the bank, who will pass them on to their agent or correspondent house in your port. The bills will then be presented for acceptance, and later presented at maturity, when you will arrange with your banker to transfer the requisite credit to the *payee*. Where the full set of shipping documents accompany the bills, a d/a (documents against acceptance) transaction takes place, since the presenting bank will not endorse and pass the bills of lading to you until they have secured your acceptance. Even more stringent methods may be adopted: d/p (documents against payment) safeguards shippers by keeping the goods under their control until payment has been arranged. With urgent, short-distance traffic, either of these methods means a little delay in getting possession of the goods, and may slightly increase the dock charges. An alert importer will therefore take an early opportunity of arranging that bills of lading shall be sent to him direct, thus placing him in a position to get his goods promptly.

Remittance terms, i.e. the freedom to settle an invoice by transferring a credit to the shipper's agent at the time most suitable to one's self are, of course, desirable from the importer's point of view.

Hypothecation.

Hypothecation is akin to this subject, though somewhat different, and of incidental interest only to the importer. A shipper may *hypothecate* or pledge his goods to his banker in return for an immediate advance of the whole or a large percentage of their value. Such pledging is carried through by passing the full set of shipping documents to the banker, accompanied by a *Letter of*

Hypothecation authorizing the banker, through his agent, to collect the amount of the invoice, or, in default, to sell the goods in satisfaction. The agent, on receipt of the shipping documents, will hand them over against acceptance or payment, in his discretion.

Account Sales.

When goods sent on *Consignment*, accompanied by a *Pro Forma Invoice*, have been sold, the importer will need to prepare an *Account Sales* to specify clearly the position between himself and

debit that may come in late. An importer will soon learn how far it is safe to *estimate* the amount of certain charges or expenses in order to complete the *Account Sales*.

CHAPTER XIV

TRANSHIPMENT GOODS

BESIDE her large *entrepôt* trade, our country handles a large volume of traffic *in transit* or for



By permission

"Siren and Shipping"

DISCHARGING PIT PROPS AT A SOUTH WALES PORT

his principal. An *Account Sales* should record the gross price realized for the consignment, and specify in detail all expenses and outgoings in connection with the clearance and sale. These, with the agreed percentage on the gross proceeds set aside as *Commission*, are deducted, and leave the net amount due to the shipper, whose instructions for remittance must be followed, unless arrangements have been made for periodic settlements, or an *Account Current* is in vogue.

A careful system of book-keeping must be adopted for consignment goods, the chief aim being to ensure that all expenses referable to a particular parcel are duly debited against the gross proceeds. Having once rendered an *Account Sales*, it is difficult to urge acceptance of a further

transhipment. It is customary to regard as *transhipment* traffic any consignments that pass direct from the importing vessel to another within the same port; while the term "in transit" refers rather to goods that are passed through one port and sent across country for re-export, e.g. goods from the Continent imported at London and railed to Liverpool for shipment to Canada.

No great difficulty attends the transit of free goods, whether to another vessel at the same port, or across country. When such goods are consigned on Through Bills of Lading, a green form, No. 15 (Sale), *Entry for Free Goods in Transit on Through Bill of Lading*, should be completed. The port of exportation and, if possible, the name of the exporting vessel, are required, and the usual

export specification must be prepared when the goods are actually exported.

Dutiable Goods.

Dutiable goods for transshipment entail greater formality. They may be dealt with only through certain approved transshipment ports, where suitable transshipment sheds, approved by H.M. Customs and under Crown locks, are maintained. The *Bond Note for Transshipment and Exportation*, No. 49 (Sale), must describe the goods according to the Import List. The *Transshipment Delivery Order*, No. 50 (Sale), addressed to the officer at the import ship, serves as his warrant for permitting delivery of the goods to a licensed lighterman or carman for removal to the export ship. The *Transshipment Shipping Bill*, No. 38 (Sale), is presented to the officer at the export ship, and his signature certifies due shipment and enables the bond to be cancelled.

Transshipment lighters must be specially approved by the Customs, and varying time limits are in force for the completion of a transshipment operation. Most goods must be shipped within six clear days of delivery from the transshipment shed, but in the case of certain high duty goods, the time limit is three days only.

When transshipment goods have to be removed by rail to another port, the railway company must give bond, their vans must be secured by Crown locks, and the goods must be delivered into Customs charge at the port of shipment within 48 hours from the time of delivery to the railway.

CHAPTER XV

GOODS RECEIVED BY AIR

SINCE August, 1919, when aircraft were first used for commercial traffic between this country and the Continent, the number of air routes in operation has gradually increased. Goods may only be landed at certain "appointed" aerodromes and the provisions of the Customs Acts with respect to imports by sea apply also to arrivals by air. Goods are examined by the Customs officials at the terminal aerodromes, the appropriate Customs Entry Forms having to be presented on behalf of each consignee, and duty being paid where applicable. Goods that have not been examined and cleared by the Customs must be placed in a transit shed at the aerodrome pending clearance, and all goods imported by aircraft must be unloaded and entered within seven days from the time the aircraft arrived. The Air Line staffs often act as forwarding agents so far as concerns the clearance and despatch of imports, their work in this respect being comparable with that performed by many wharfingers. If delay is to be

avoided they must be supplied with full particulars of cargo, which, in the nature of things, is valuable and urgent.

So far, goods *ex* aircraft have not gone into bond to await delivery, but no doubt such developments will follow. The service at its present stage attracts only merchandise that is urgently wanted. Neither are receipts by air differentiated in the statistical tables and summaries issued by H.M. Customs, though such a record would obviously have great interest a few years hence. Still, one may anticipate that the aircraft companies themselves are awake to the value of such records, both from a publicity point of view and from the wider outlook of the student of transport.

SHIPPING AND CUSTOMS TERMS AND ABBREVIATIONS.

- B/L*. Bill of Lading.
- Berth*. The place alongside a quay where a vessel is discharging or loading.
- Blending*. The bulking of different growths or qualities (e.g. of tea or wines and spirits) in a given proportion to improve or strengthen the whole.
- Bonded Warehouse*. A warehouse approved by H.M. Customs for the deposit of dutiable goods on which the duty has not been paid.
- Bulking*. Emptying the contents of several packages into one heap, and mixing to ensure uniformity of quality.
- C. and D.* Collection and Delivery (railway rates).
- C. & F.* Cost and Freight.
- c.i.f.* (or "*cif*") Cost, Insurance, and Freight.
- C/O*. Certificate of Origin.
- C/R*. Company's risk.
- Clean*. Landing Accounts, Bills of Lading, and Receipts are termed "clean" when no mention of any damage or imperfection appears.
- Consignee*. The person to whom goods are consigned.
- Consignment*. Strictly, goods received by an agent or broker for sale to best advantage. By usage, any parcel of goods controlled by a single interest, or in transit to one destination.
- Consignor*. For Customs purposes, the last owner of goods at the place from which they were procured.
- Cooper*. One who makes and repairs casks.
- Customs Bills of Entry*. Daily lists printed under Customs authority. Bill *A* gives the ships reporting inwards at certain British ports, with an abstract of their cargo. Bill *B* is a daily record of the exports, imports, and movements of shipping at the ports concerned.
- D/O*. Delivery Order.
- Demurrage*. A charge for detention of ships, barges, or trucks under or awaiting load.
- Draft*. A standard allowance made in certain trades (e.g. Tallow) by importers to buyers, on account of natural loss after landing weights were taken.
- Drawback*. Repayment of duty on exportation of goods.
- Dunnage*. Material used in stowing a ship's cargo, to fill up spaces, prevent shifting, or separate "bulk" parcels.
- Force Majeure*. Dangers or events beyond human power to control.
- f.a.s.* Free alongside ship.
- f.o.b.* Free on board.
- f.o.r.* Free on rails.
- f.p.a.* Free of particular average.
- F/R*. Freight release.
- Freight*. A charge for carriage of goods, usually by water.
- Garbling*. Sorting over certain dry goods (e.g. nutmegs, tobacco) to remove damage and eliminate dirt.
- Gauging*. Measuring the contents of casks.
- King's Warehouse*. A warehouse used for the deposit of goods seized or detained by the Customs.

L/A. Landing Account.

Lien. The right to detain goods belonging to another until a certain liability has been met by the owner. A ship-owner has a lien for freight and other charges, on goods carried.

Manifest. A list giving marks, numbers, description of package and consignees for goods carried by a vessel.

Measurement Goods. Light, bulky goods on which freight is charged at the measurement ton of 40 cubic ft.

n.o.r. Not otherwise rated.

O/R. Owner's risk.

Overtakers. Teas, gums, etc., after being bulked, cannot be returned entirely to the original packages. Extra packages, called "Overtakers" are procured for the surplus.

Prime Entry. The first entry for a parcel of goods on which duty is paid *ex ship*.

Prompt. The date after which buyers become responsible for rent or other charges on goods.

Racking. Drawing off wines and spirits from the lees or sediments, or transferring from old to new casks.

Rotation Number. A serial reference number given to each vessel reporting at a British port; 23/1 would be the rotation number allotted at the Custom House to the report papers of the first vessel to enter the port during 1923, and such reference number would be quoted in respect of all goods landed from the vessel.

Rummaging. Has two meanings: (1) The searching of a

ship by Customs Officers for dutiable or prohibited goods.

(2) Turning over a pile of goods to deliver specified packages.

S. to S. Station to station (Railway rates).

Taring. Removing the contents to ascertain the *tare* or actual weight of the container. (*Customary tare* is a uniform rate adopted in certain trades: *Average tare* is an allowance arrived at by the *taring* of a small percentage only of a consignment.)

T/O. Transfer Order.

Transire. A document that serves as Customs Clearance of a vessel carrying goods coastwise, and as the entry of the goods at the port of discharge.

Ullage. The difference between the total capacity and the actual contents of a cask: or, by usage, the actual content is often termed the "ullage," and the difference the "vacuity."

Vacuity. See "Ullage."

Valting. Mixing the same sorts, brands, or colours of wines or spirits to strengthen the whole or secure uniformity. (As distinct from "Blending," *q.v.*)

w.p.a. With particular average.

Warrant. (1) A *Customs Warrant* is a document authorizing a warehouse keeper to deliver goods from a bonded warehouse. The top copy of any Customs Entry is also termed the "Warrant," since it authorizes the landing and delivery of the goods described. (2) A *Dock Warrant* is a negotiable instrument issued as a receipt for goods warehoused.

SECTION 36

The Export Department

By FRANK M. DUDENEY

Author of "The Exporter's Handbook and Glossary"

CHAPTER I

INTRODUCTORY

THE term "shipping trade" is so widely comprehensive as to create a feeling of bewilderment in the mind of the novice. The first lesson to be learned is that it is not a compact entity to be brought within the boundaries of a simple definition, but is as diversely sectionalized as home trade.

Evidently, then, the beginner must not only take steps to acquire a general knowledge of shipping matters, but must decide in which branch he intends to specialize. No man living can claim to have a complete knowledge of the shipping trade as a whole, but neither can any hope to be successful unless he becomes an expert in that part with which he is practically concerned.

Exporters, Agents, and Importers.

Roughly, there are four principal classes of people engaged in the shipping trade. They are the manufacturers, the merchant shippers, the buying agents, and the importers.

A manufacturer may ship the goods he manufactures direct to customers abroad, but more usually he ships indirectly through merchants and buying agents.

A merchant shipper is an independent middleman between manufacturer and importer, shipping directly to the latter on his own account, and taking his profit in the ordinary way of business.

A buying agent has his own set of clients in overseas markets, receiving definite indents from them, and buying and shipping the goods they require in return for an agreed commission. He also undertakes the financial responsibility for the goods he buys and ships.

An importer is self-defined. He is simply a wholesale merchant or large retailer in an overseas market who obtains his stocks from sources of supply outside the customs boundaries of that market.

Each of these has his own distinct sphere of action, performs entirely different functions, and employs widely diverse organizations, yet all dovetail very neatly into the general plan.

There is a fifth factor who may be mentioned—the export agent who undertakes to provide the

export sales organization for one or more manufacturers. He, however, cannot be said to play a principal part in British shipping trade, and usually tends to develop into a merchant shipper on his own account.

It is clear that the manufacturer or merchant who intends to develop an export department must have a complete understanding of the functions and practice of importers, and of the selling and buying agents who act as intermediaries. Together they constitute the machinery of export trade, and no one can hope to drive a machine successfully without knowing something of its design and constitution. Especially is this the case in regard to the business man who proposes to organize a sales campaign. He must not only know all about the goods he desires to sell, but also about the ultimate buyers and the channels through which they can be reached, influenced, and served. With this knowledge acquired, there should be no more difficulty experienced by a manufacturer or merchant in starting an export department than, say, by a big general stores in adding a new retail department to its organization.

A Profit-making Department.

In fact, the manufacturer who remains content with home trade, and who deliberately refrains from selling his productions in the great markets beyond the seas, is sadly misguided. By sheer lack of initiative and courage he is refusing to develop a department which, if properly worked, will not only provide him with a very large additional turnover, but will show him a uniformly higher percentage of profit than any other section of his business. The reason for this superior profit-margin being available is obvious. It is not due to any lack of keenness on the part of shippers or importers to obtain price advantages, but they are less impressed by fine cuts than are home buyers because differences in quotations bear a much smaller relationship to landed prices than to those which would be charged at home. The addition of freight charges, insurance premiums, Customs duties, landing charges, and rail or other transport costs in the country of destination, makes so considerable a difference to the price of an article that a material difference in first cost between two lines dwindles considerably in relative value by the time the ultimate cost is

arrived at. For this reason, too, the merely cheap and low-quality line is at a discount for export purposes, its cheapness vanishing when shipping charges are added. Consequently, the firm with a good article to sell finds the export trade more satisfactory than home trade because it can quote at a reasonable profit, free from the more annoying forms of competition by cheap-jack rivals.

CHAPTER II

FORMING AN EXPORT ORGANIZATION

THE essential preliminary to any steps toward forming an export organization is the adoption of a clear policy. On the face of it this seems merely



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A CORNER OF AN EXPORT PACKING ROOM

Exports Form a National Insurance.

There are other and weightier reasons for entering export trade which will influence the business man who is large-minded enough to be interested in more than his immediate personal profit. The greater any country's output of merchandise for shipment, so much the greater is its general commercial prosperity. Exports are the safest and healthiest form of national insurance, they give the exporting country an advantageous position in regard to monetary exchanges, they make of it a creditor country, and they strengthen and widen its industrial activities. The exporter is, in short, the most practical type of patriot.

an obvious piece of common sense, yet it is often overlooked wholly or in part. A broad policy is required governing action at every point, including factory arrangements, choice of markets, selection of selling methods and intermediary channels, agency appointments and terms, credits, discounts, prices, packing, advertising, and a score of other matters in regard to which fatal blunders may easily be made in the absence of a definite and considered guiding line.

The Factory Service.

First comes the question of factory service. Only in very exceptional cases is it necessary or worth while to consider the erection of a separate

factory, or even the provision of a distinct manufacturing department, to undertake the execution of shipping orders. But within the existing factory limits a very distinct policy must be laid down for the direction of managers, overseers, packers, counting house staff, etc., otherwise the inevitable will occur and export business will be sacrificed for the benefit of home trade. Shipping orders must be dealt with even more punctiliously and punctually than others, for sailing dates have to be met, and causes of complaint cannot be rectified easily at a distance.

On no account must the shipping department of a manufacturer's business be allowed to drift into the position of a subsidiary or negligible interest. On that rock many a manufacturer has split, and then complained that export business was "not worth doing" or "too difficult." A man of strong personality and expert knowledge must be placed in charge, and he must feel that he has the full support of his principals. He must have the rare gift not only of being able to get the most out of an organization within four walls, but of being able to obtain the best out of one reaching to the farthest parts of the earth. He must be capable of making his directing and driving influence felt equally by his City representative who collects indented orders from the shipping houses in London or Manchester, and by a commission representative in New Zealand or a merchant-agent holding territorial rights in Teheran. Above all, he should possess sound judgment, courage and definiteness in formulating and carrying out policies.

No manufacturer can hope for results who delays the appointment of such a manager while "testing" his chances by sending out a forlorn hope among the shipping houses in the shape of a cheap tout or a junior aspirant to the post of commercial traveller, the latter being spurred on by the promise that he shall have a home ground as a reward for "making good" in the shipping trade. Nor is anything more satisfactory likely to follow the casual appointment of a "commission only" representative in this or that market "just to see if the fellow will send home any orders," and then forgetting all about him. By such methods too many firms attempt to initiate and conduct export business, and, of course, they always fail. In short, they have no intelligent policy, and consequently secure no results.

Choice of Export Markets.

Now, having appointed a manager who understands the business, the first step in forming a policy is obviously to decide, in consultation with him, what markets shall be catered for. Export markets differ from each other in their requirements and methods as much as they do from the home market. So, according to the character of

the article to be sold, an intelligent discrimination must be exercised after passing them all a review.

The British Dominions.

Business markets may be roughly classified in groups. A specially prominent position is held by the great self-governing Dominions of the British Empire—Canada and Newfoundland, Australia, New Zealand and South Africa. These are populated mainly by British-speaking peoples with British traditions, tastes and tastes, and are allied to those of the non-white of the Mother Country. There are differences due to climate and local conditions, but these are accidental and not inherent. Consequently, practically all the staples in demand in Great Britain are sold freely in the Colonies. They are largely extensions of the home market in regard to the goods they absorb, but all with added requirements special to their own. South Africa, of course, offers a large trade in "Kaffir trade" in addition.

India.

India also ranks with the great English-speaking Dominions as a consumer of goods for the benefit of its considerable white population. Its cotton works and engineering industries want a massive customer for machinery and materials, and the needs of its vast native population have to be catered for on a commensurate scale.

The Latin-American Republics.

The South and Central American Republics form a distinct group geographically and commercially, ranking in importance and standard of organization with the British Dominion markets. All correspondence with them must be in Spanish or, in the case of Brazil, Portuguese.

"Native" Markets and Traders.

"Native markets" is a far-reaching term, covering widely diverse trading conditions and requirements, from the highly developed commercial field which modern Japan offers, to the crude service of West African or South Pacific tribes. It is, of course, most commonly used to designate markets whose purchases are of the simplest kind to meet the needs of primitive coloured peoples, such purchases being made by wholesale merchants of European or Indian nationality, and distributed by them to pioneer white, Indian or native store-keepers and travelling traders, who in turn supply the goods to the savage or semi-savage inhabitants over wide areas. Incidentally, many such markets owe their early opening-up and development almost entirely to the work of enterprising Indian, Goanese or Chinese traders, many of whom blossom into substantial wholesale firms, importing manufactured goods and shipping native produce to Europe in return. The British East African territories offer an especially noteworthy example,

but, as they are also exemplifying at the present moment, a stage of development inevitably is reached where European mercantile interests increasingly predominate, antagonism arises and the Indian or Chinese trader comes to stand for the "Asiatic trading evil" or "menace," and legislation is attempted to suppress or restrict him. Nevertheless, his work in the early stages as a trade developer could hardly be dispensed with.

China.

In the East great composite markets exist, combining all the features of native markets on a large scale with a highly valuable business in machinery and materials for public works and services, and in articles of luxury and the better-class necessities for the relatively small colonies of Europeans engaged in administrative, mercantile, planting, and other activities. India and Malaya at once occur to mind in this connection.

China stands alone. It is composite in the same sense that India is, but the character of its trade is very different, and is likely to become still more different. It is at present in a state of transition. From having been an almost impenetrable market apart from certain beaten tracks, hide-bound in its conservatism and prejudices, and mainly controlled in regard to its manufactured imports by the limited number of powerful merchant houses at the few Treaty ports, who distributed through the "compradore" system, it has for some years been slowly undergoing revolutionary processes which will eventually transform it into one of the world's greatest commercial and industrial fields. That transformation, however, will be realized on entirely individual and distinctive lines, and it is safe to say that China will always be unique among the world's markets, and will require special knowledge and study on the part of those seeking to trade with it. English, American, German, and especially Japanese influences have had their share in the commercial opening-up of China, but in the end that vast Empire will be found to have worked out a commercial destiny and character all its own.

Japan.

Japan is carefully shaping itself into an industrial country able to rank with those of Europe and America, and, like those, in supplying a large proportion of its own requirements in manufactured goods, it will gain proportionately in general buying and importing power.

Middle Europe and the Levant.

The small new states in Europe which the Great War brought into existence may be mentioned, but all that can be said concerning them is that they are not yet sufficiently organized commercially to offer practicable openings on any

scale to the average manufacturer or shipper. Czecho-Slovakia, the most advanced, has not yet discovered that it must import as well as export, and for the time being does not encourage inward trade.

There are also the Levantine or Mediterranean markets, with their special difficulties and dangers for unwary shippers, but enough has been said to indicate the wide variety of export markets and their requirements, and to render clear the wisdom and necessity of cultivating only those for which the would-be shipper's goods and facilities are suitable.

CHAPTER III

PRELIMINARIES TO A SALES CAMPAIGN

WITH the first important point of policy—selection of markets—definitely settled, it becomes necessary to proceed to a decision in regard to selling methods and sales organization generally. The choice will lie, according to the circumstances, between commission agents, merchant-agents, staff representatives, circularizing, advertising, etc. The question of London representation will be subordinate to, and dependent upon, this.

Different Methods for Different Markets.

The essential factor, as already explained, is the character of the market, or markets, to be served. If, as in the case of the British Dominions or the Latin-American Republics, a strong organization of merchant-distributors exists, it is obviously to them that the selling appeal must be made, and it is from them that all orders must emanate. If, on the other hand, it is sought to do business with a country, such as some of the weaker of the post-war European Republics, whose credit is poor, and whose merchant-importers in most cases do not possess London buying agents, it is clear that the only channel of trade will be the general shipping house, and the character and method of the selling appeal must be adapted to that fact.

So with every kind of market the effort to obtain business must be suited to the conditions, and this further applies to different classes of goods introduced into the same market. The type of distributor required, say, for specialized machinery cannot possibly be the same kind of merchant as the buyer of hosiery. The former would in most cases be a merchant to whom it would be necessary to grant sole agency rights for a definite territory, and who would carry one or more machines, and a stock of spare parts and accessories "on consignment." The soft goods distributor, on the other hand, would more commonly be an independent general importer who would place his

indents through his own London or Manchester buying office or agent.

“General” and “Specialist” Merchants.

In spite of what has been said, however, it is no less true that specialization exists on a much smaller scale in the export trade than at home. Apart from those who make it their sole business to deal in lines, such as specialized machinery, which require expert technical knowledge to handle, both wholesale merchants and storekeepers abroad carry stocks of a far more diverse character than we are accustomed to in England. Trades are much less sharply divided, particularly in the newer countries of the world, and in many large territories there is no such classification as ironmonger, draper, grocer, etc., the functions of all these being combined in the local storekeepers, who in turn buy from equally comprehensive wholesale houses. In fact, to quote a well-worn saying, the same store will supply a customer with everything “from a hairpin to an anchor.”

The Wholesaler Must be Influenced.

As a market develops, of course, trade specialization grows, beginning with the larger towns, and penetrating last to country districts. Yet, apart from the older civilizations, the “general” merchant and the “general” storekeeper are the ruling commercial factors throughout the world, and the average manufacturer will for generations to come have to look to them for the bulk of his shipping trade.

His problem, then, is to select or devise the most effectual way of selling his products to them—or, at least, the former of them. It may be that his article is one which requires wide popular advertising to the general public in order to create and maintain a demand, but apart from this necessity the manufacturer usually need not extend his direct selling effort beyond the wholesale merchant. He has circularizing, advertising, personal representation and agency methods at his command for this purpose, any or all of which may prove profitable according to circumstances.

CHAPTER IV

THE EXPORT MACHINE DESCRIBED

WITH the foregoing facts realized, the next step is to acquire some understanding of the machinery through which the importer—who, of course, is the manufacturer's actual customer, no matter what intermediaries are employed—places his orders and gets them executed and shipped. That knowledge is essential to any decision as to the form of salesmen and selling methods to be used.

How Orders Reach the Manufacturer.

Briefly, this is the process followed in general export business. The importer prepares an indent which he mails home to his buying agent or to a merchant shipper. An indent is not an actual order, but an instruction to purchase and ship either one or many articles. It has no set form, but is usually a tabulated list with actual or approximate prices and special instructions inserted against each item.

The Influence of the “Specific” Indent.

On the arrival of the indent the buying agent or the merchant shipper, as the case may be, analyses its contents, requests manufacturers' City representatives to call with quotations and samples as required, places the orders, gives full packing and shipping instructions, inspects the goods when ready, superintends their shipment, and accepts financial responsibility, usually on monthly terms.

In former times mainly, and to some extent still, the terms of an indent would be of a general character, imposing no binding instructions as to price and maker on the buyer or shipper. Such an indent is called an “open” one, but under modern conditions of salesmanship and advertising the tendency is general to use only “specific” indents, the importer thus practically doing his own buying from knowledge nowadays available to him. In such cases the only work required of the buying agent or shipper is to “confirm” the order and superintend shipment.

With the specific indent thus in vogue it becomes apparent why the manufacturer must not merely keep in touch with buying agents and shippers, but must take steps to induce the importer to indent for his particular lines. Moreover, quite apart from influencing the importer in preparing his indent, it is necessary for the manufacturer to learn promptly that such an indent has been forwarded. Without such knowledge he cannot take steps to seek confirmation of it, and may have the mortification of learning later that the buyer has taken the responsibility of placing the order with a competitor.

Getting Into the Indents.

There is only one method open to the manufacturer. He must employ a commission agent resident in, or regularly touring, the importer's market. Such an agent will do the work of an ordinary commercial traveller—and more. He will not only employ all the salesman's arts in order to induce the importer to indent for his principal's goods, but, on obtaining a promise of such action, he will promptly prepare a draft of the forthcoming order in triplicate, presenting one copy to the importer, retaining one himself, and posting the third to his principal, adding all necessary information as to the identity of the

importer's buying house, etc. Armed with this, the manufacturer's City representative can make an immediate call on the buying house and ask for confirmation, thus minimizing the risk of that slip which so often occurs 'twixt cup and lip.

When Specialist Merchant-Agents are Required.

If, however, the manufacturer is producing,

and sells on consignment. He works a special campaign among possible users, exhibiting and demonstrating at agricultural and other shows, field trials, etc. Often a staff representative, or even the principal himself, can work advantageously in co-operation with such a merchant-agent, by visiting the market yearly and assisting in working up a special campaign, or in clinching doubtful orders.



Photo

Kealeys, Ltd.

PACKING (UNDER BOND) FOR EXPORT
(Messrs. Burgoyne, Burbidges & Co., Ltd.)

say, farm implements or mining machinery, the commission agent is obviously unlikely to be of much service to him, because the general importer is not likely to have many orders to place for these, and certainly will not be in a position to stock such lines. In fact, the farmer or mining engineer himself must be influenced, stocks must be carried and expert demonstrators provided, and in many cases it will be necessary to watch and tender for advertised contracts, and also to superintend the erection of the machines after sale. For this work an entirely different selling agent is required, and he usually takes the form of a merchant-agent—a specialist machinery merchant who stipulates for sole rights in a given district, and who stocks

The Merchant-Shipper's Position.

Before dealing more fully with the work of these various selling agents, it may be advisable to add a few facts concerning the two classes of confirming houses through whose hands so large a proportion of export orders necessarily pass.

The merchant-shipper is primarily an intermediary between manufacturer and importer, acting as a principal and not as an agent. Actually, however, he frequently carries a number of buying commissions in addition. Originally he created and handled export trade in its entirety, and only by securing his goodwill could goods be sold abroad, he being the sole salesman. The

evolution of the commission buying system and other factors have radically changed this, and to-day the merchant-shipper has a more limited field. He is still paramount in regard to markets whose importers are not in a position to employ buying agents, while in other markets where large importers have been able to employ agents to buy direct from manufacturers instead of dealing with another middleman, the only accounts likely to be handled by the merchant-shipper are those of small importers whose individual buying operations do not amount to much, though in the aggregate they make a substantial business. There is also a large amount of trade outside the ordinary scope of the general importer's activities, such as the purchase of an occasional item of equipment by a plantation owner, or of a self-contained lighting set for a more or less isolated bungalow, and odd indents for these naturally pass through the hands of the merchant-shipper.

The Commission Buying Agent.

He is, therefore, an important factor for the manufacturer to reckon with, but wherever a market becomes highly organized, as in the case of all the principal British Dominions, the commission buyer is even more important. The latter is the agent of the importer, neither more nor less, who pays him an agreed commission on all purchases made. The buying agent, as already explained, accepts financial responsibility for all payments for goods, and it is he, and not the importer, who must be sued in case of default. He pays the manufacturer cash or on monthly terms, but has a settlement with his importing connections half-yearly or yearly. To that extent he may be said to finance the importer, but frequently a large colonial firm will be financing him by means of credits, or it may establish its own buying branch in London or Manchester. Commission buying agents generally agree to pass on all discounts and allowances to the firms for whom they buy, and if one ever asks the manufacturer—as does happen at times—to make him a special consideration which is not to appear on the shipping invoice, and which is in effect a secret bribe to obtain the order, the practice should be viewed as extremely doubtful, if not worse. Usually it is wise to take a firm line, and refuse to be a party to anything of the sort.

The firms for whom a commission agent buys are known as his "marks."

The "Direct Importer."

Another point with which every manufacturer must deal at one time or another is his policy in regard to direct importers. His decision in any given case may affect the success of his whole sales campaign, and he cannot be too cautious in accepting orders which reach him through other channels than the merchant-shipper and the

buying agent. If the would-be direct importer is situated in a part of the world where the mercantile system described does not run, there is usually no objection to serving him direct, the only point to take into consideration being his financial standing and reputation. If, however, he is merely trying to ignore the accepted system in order to steal an extra profit, or, on the other hand, is trying to get credit which has been refused him by merchants, the manufacturer's best course is to turn the order down. In either case the result of serving him will probably be to antagonize all the regular shippers to, and importers in, the market concerned.

CHAPTER V

SELLING THROUGH COMMISSION AGENTS

ASSUMING that a commission agent is to be employed by a manufacturer as his principal factor in opening-up and developing trade with a particular overseas market, a number of important points will have to be taken into consideration.

The Grouped Agency System.

The first of these is that only in very exceptional cases can a man give his entire attention to one agency on a commission basis. It is useless to ask any expert in the business thus to limit his opportunities and earning power. The usual practice is to carry a group of allied agencies, and it will be found that the successful men are those who possess sufficient technical knowledge of the lines they carry to be able to "talk" them to expert buyers. The number of agencies carried varies with circumstances, but only within well defined limits. Roughly, from six to a dozen commissions are the rule, and the man who is prepared to accept any number, especially on a "commission only" basis, is open to suspicion of being non-expert or worse. Of course, this stricture applies to the individual salesman only. Where partnerships exist between two or more agents there is less need to fix an arbitrary limit, and the question does not arise at all in respect of agency firms employing a travelling staff, and perhaps with permanent salerooms in a number of commercial centres. Such firms are nowadays numerous in all the principal Dominions and many other countries.

Undisclosed Partnerships.

It is, by the way, worth noting that working arrangements amounting almost to partnerships frequently exist between two agents, but are not always disclosed. Each agent is responsible for his own commissions, but a certain "pooling" of

on the total turnover in the particular market being worked, and not solely on orders directly traceable to the agent's influence. This is a perfectly fair arrangement, for most repeat orders, and many original orders, are the result of his salesmanship, although he may have no knowledge of them, and neither the indenter nor the home buyer will trouble to indicate the origin of each order. Further, the agent frequently does a great deal of work for his principals in addition to actual selling, some of such work being only remotely beneficial to himself, which clearly strengthens his claim to commission on the entire turnover on his ground.

Expenses and Taxes Abroad.

It should be remembered, incidentally, that expenses are much higher abroad than at home. Railway rates are usually higher and longer distances have to be covered; the cost of living is greater; and in some countries licences have to be taken out by commercial travellers, the fees ranging as high as £150 per annum in some cases. The South American Republics, South Africa, Sweden, Denmark, Norway, Iceland, Madagascar, and parts of the West Indies are among the countries which impose a tax of this kind.

Finally, when an agent has been appointed it is as much in the interest of the manufacturer as of the representative that the latter should be given a free hand, full confidence, and all possible support in regard both to his selling efforts and to the execution of his orders.

CHAPTER VI

MERCHANT-AGENTS AND OVER-SEAS BRANCHES

THERE are some classes of goods, such as machinery, which it is impossible for the travelling commission agent to handle; there are also some markets where importers of a suitable status, and possessing home buying connections, do not exist, and there is therefore no call for his services. In each case the alternative is to employ a merchant-agent.

The Handling of Machinery Agencies.

Assuming that the manufacturer produces steam ploughs or rock drills, he has obviously to reach a special class of user. The general wholesaler is not likely to be asked for such articles, and an entirely different channel of distribution must be found. For the supply of many classes of machinery, of course, public authorities, farmers' co-operative associations, mining companies, etc., will invite tenders by advertisement on the spot. Not only does this compel the vigilance of some form of local representative, but in numerous cases it will be stipulated that

tenderers must possess such representation, and of a responsible character, so that erection can be supervised and urgent questions dealt with.

Specialist Merchants.

The only satisfactory course, therefore, is to enter into an arrangement with a merchant specializing in machinery and engineering supplies, as distinct from the general indenter. Such a specialist merchant is often an engineer himself, combining technical and commercial functions. He will possess the sole selling rights within a definite territory for certain makes of machines, making his own profit instead of working on commission. Perhaps the motor or cycle trades at home provide the closest analogy to his position. He will not carry stocks in the ordinary sense, though he will generally be prepared to hold sample machines "on consignment," and will carry stocks of spare parts and accessories. He will exhibit machines and arrange working demonstrations of them, advertise them locally, and generally act as a principal, executing orders and entering into contracts with buyers on his own account. When mutually considered necessary, he will share the expense with the manufacturer of placing on his staff an expert from the latter's works. Merchant-agents of this kind are frequently among the aristocrats of export business, trading on a very large scale, and having their own London house to facilitate their shipping operations.

District Agencies.

That is one class of merchant-agent. There is another who may handle all kinds of goods on a small or moderate scale, obtaining sole district rights for special lines, particularly branded and proprietary articles, but asking for no other form of concession, and buying on their own account, their orders being confirmed in the ordinary way in London. They serve a useful purpose in some markets, but it hardly needs pointing out that their employment may involve a danger of restricting the manufacturer's opportunities.

The "Del Credere" System.

Another type of merchant-agent exists who is, however, very localized, and is the creation of the special circumstances prevailing in a few markets. There are countries, such as Egypt was for many years, and some of the new central European States are to-day, where credit conditions are so uncertain that manufacturers desiring to serve them find that they are represented in London by so few commission buying houses that the trade cannot be covered, while direct shipping would be too dangerous financially.

There is only one remedy. The manufacturer must find at least one trustworthy merchant firm in such a country, or in each of its principal business

centres, and make a special arrangement to deal with would-be importers through that firm. The primary object of such an arrangement is to fix financial responsibility for all accounts in a reliable quarter on the spot; in other words, to find a local equivalent of the home confirming house. The merchant-agent in this case does not buy on his own account and take his profits, but is paid by commission only, the commission, however, being at a higher rate than usual in return for the merchant-agent's acceptance of responsibility for bad debts. The manufacturer renders accounts direct to each customer, and receives payment from each, but only serves those whose orders are passed through, or approved by, the merchant-agent. Agencies of this kind are meant when the *del credere* system is referred to.

Personal Visits.

Before fixing up an agency of any kind it is strongly to be advised that the manufacturer should either pay a personal visit to the market, or send out a responsible special representative. It may seem costly, but it invariably pays in the long run. Not only does it mean a closer investigation into, and a clearer judgment on, the suitability and standing of the agent whose appointment is under consideration, but it establishes personal relations of a valuable character, and it affords an opportunity to give the new agency a good send-off with a vigorous and educational personally conducted sales campaign. Such a visit might be, of course, and often is, extended into a tour of a series of markets, and a chain of agencies is thus established.

Either the manager of the export department or a special representative might also in many cases be despatched at regular periods on such a tour with extremely useful results. He would thus supervise the agency system, settle disputes, bring to a head any difficult business which the agents had been unable to clinch, and do a certain amount of direct salesmanship in co-operation with the agents. The stimulating effect of this would be beyond calculation.

Establishing Local Branches.

There comes a time in many markets, too, when the manufacturer is forced to consider the advisability of establishing his own local branch in place of employing agents. To tell the truth, however, such action is wise in only a very limited number of cases. A widely-popular proprietary article may sometimes be better pushed in this way than any other, but this does not apply to the general run of goods. The antagonism of former agents and wholesale customers may have to be faced; higher costs will be incurred, including the taking out of an importer's licence; and, unless the manager is a man of exceptional

character and ability, with a substantial personal connection and wide local knowledge, the results will probably not be so satisfactory as can be obtained by a first-class commission agent.

CHAPTER VII EXPORT AGENTS

THE value of agents as selling factors in overseas markets has been explored at some length because the subject is of such vital importance to any business man seeking to build up an export department, and to develop a substantial shipping trade. In nine cases out of ten he will have to employ one or more of the types of agents previously described, and he will owe much of his success or failure to the service he obtains from them.

How to Hire an Export Department.

There is, however, one other course open to him which demands description. Instead of forming an export department, with a complete agency system, it is possible for him to place his export interests in the hands of an export agent in London or other suitable home shipping centre. It is a matter for individual judgment and choice, and is certainly preferable to an inexpertly or half-heartedly run export department. A reputable export agent will give a reasonably good service, and will certainly cost less.

Export agents are in a large number of cases City shipping representatives who have started business for themselves. They are not usually over-burdened with capital, and the extent of their influence on importers abroad is a variable quantity, though, of course, they are usually "well in" with the home shipping houses and buyers. At the top of the tree are some very substantial firms; at the bottom a large army of more or less inefficient weaklings is to be found. It therefore requires extremely careful consideration before entrusting a firm's entire export interests to a particular agent.

The Export Agent's Functions.

The export agent's functions and methods are easily described. He acts for a group of manufacturers, works on a commission basis, and canvasses the home shipping and buying houses very thoroughly. If he is of the best type, he will go considerably beyond this, undertaking periodical journeys by himself or a qualified representative through different overseas markets, providing a permanent showroom in a shipping locality, maintaining up-to-date lists of importers for circularizing purposes, and advising on special requirements, advertising, and general policy. That his occasional journeys should prove as

effectual as the constant work of a commission agent on the spot is not to be expected, though they call for an equal expenses contribution. When fully efficient within his limits, however, he undoubtedly represents an economical substitute for a full-fledged export department.

CHAPTER VIII EXPORT ADVERTISING AND CIRCULARIZING

HAVING completed the personnel of the export selling service by appointing a manager, a City representative, and agents covering the ground to be worked, another and no less important side of sales promotion and organization calls for attention. However efficient and comprehensive



STORE IN THE KATANGA, BELGIAN CONGO

the work of agents and other salesmen, it is still necessary to supplement it by suitable advertising and by the distribution of circulars, price lists, etc. Indeed, the ideal method is to open the campaign with discreet advertising in order to prepare the ground for agency work, and in some measure to test the market at relatively small expense.

An Exact Science.

The general run of manufacturers are all at sea in regard to home advertising. They look upon it as an experimental expenditure, a firing of arrows into the night, knowing little of the exact targets they desire, and regarding hits as a matter of pure and unadulterated chance. They have a vague idea that advertising is the right thing to do, and, being able to afford a gamble, they pay their money and hope for the best. And if that is the case in home advertising, it is doubly so in export advertising.

Yet it is possible to reduce all advertising almost to an exact science, and there is no reason why any business man should spend money on it with less certainty than when he is buying machinery or stock. Certainly he should be as definite in his methods of advertising, and in his

expectations from it, as when sending a commercial traveller to work a particular ground. The one form of salesmanship can be as clear in aim, and as expertly directed, as the other, for both are subject to the same possibilities and the same limitations.

Lines of Investigation.

The elementary necessities are plain. First, the advertiser must know who are his possible customers; secondly, he must discover how many exist, and what the aggregate value of their custom will be to him; and, thirdly, he must be able to judge what sort of appeal will influence them. With those three items of knowledge the rest is just a matter of execution.

Who, then, are the export manufacturer's possible customers? Obviously they are the importers in overseas markets, with their home buyers and merchant-shippers as secondary factors. How many are there in the market, or series of markets, which it is desired to serve? And how many of those importers are buyers of the particular goods which it is desired to sell? A directory of each market will give an approximate idea, and enquiry from the manufacturer's own commission agent, when he has appointed one, will make the figure more certain. Whatever the answer, the number will not seem as imposing as a census of, say, the retail grocers or drapers in some English counties.

Export Advertising Media.

Finally, what shape shall an appeal to wholesale importers take, and through what media shall it be made? To take the second part of the question first, the media consist in the main of newspaper advertisements and circulars. The newspapers suitable for carrying such advertisements are soon realized to be comparatively few in number. They consist of export journals published in England and circulating abroad; journals dealing with specific trades at home, but read to some extent by English-speaking business men abroad, and occasionally issuing special export numbers; and, in some of the larger overseas markets, a few journals of a commercial character, generally devoted to the promotion of local industries, and frequently hostile to import interests.

Obviously, specialized export journals published at home rank first in importance and usefulness. They are in no sense localized, but seek readers among wholesale merchants in every quarter of the globe. They are not as a rule specialized in regard to individual trades, but cover the whole range of merchandise in request, from machinery to provisions and soft goods, thereby meeting the interests and requirements of the average general importer. Their scale of charges to advertisers is invariably low compared with those of publications

appealing to the general public, and they are mostly guided by a sound, unsensational and informative editorial policy. They are, or should be, confined to their mission as organs of opinion and information for wholesale shippers and importers only, and, indeed, nearly all have subscribed circulations, and cannot, therefore, get into the hands of small traders and the general public. The essential question to be asked concerning each of them is whether they reach wholesale buyers abroad in adequate numbers, and are

moment's thought should show that their interest lies solely in such matters as the landed cost of the goods, the shipping discounts offered, the profits they can make, the possibilities of economical packing to save freight charges, the vulnerability of the goods to climatic influences during the voyage and while held in stock, and similar practical questions. Information on these points will interest them, but flowery phrases, grandiloquent claims, humorous or catchy illustrations and similar devices will leave them stone cold.



By permission

"Syren and Shipping"

BRITISH MANUFACTURES BEING UNLOADED FROM A BRITISH
STEAMER AT MADRAS

not limited to circulation among home shippers mainly.

How to Draft Export Copy.

When advertising in these, or in the other two classes of publications mentioned, the "copy" should be of a special character. Smartness is not wanted. Indeed, nothing so offends the ordinary business man of standing as an attempt to interest him by fanciful or meretricious tricks. They are interested in plain business talk, but are suspicious of anything else. It is not, of course, sufficient merely to state name, address, and articles offered. That is equivalent to a deaf-and-dumb traveller laying his card in front of them. Nor does it impress them to be told that the goods offered are "the best," "delicious in flavour," or "a boon to the housewife." A

Agents and Exports.

Incidentally, it should be realized that all advertising experts and agents are not expert in regard to export trade advertising, and not always in regard to advertising to the general public overseas. As a rule, the manufacturer who employs an advertising agent should refuse to be over-ruled against his better judgment unless he is convinced that the agent really has a practical knowledge of export sales promotion. Another point to remember is that results from export trade advertising come slowly, but are more permanent when obtained. Further, results are very difficult to trace to their origin because the bulk of the business passes through confirming houses who are loath to admit that they or their clients are influenced by any factor apart from

their own knowledge and judgment. In fact, they are generally at pains to hide the fact that an advertisement has met their eyes, and will certainly not volunteer the information.

Circulars and Catalogues.

Some of the foregoing comments apply equally to the preparation of circulars, catalogues and price lists intended for distribution among shippers and wholesale importers abroad. Hot-air talk and cheap printing must equally be eschewed. A catalogue or price list should be convenient in form for filing and reference. Overseas buyers are so keen to obtain information concerning prices and sources of supply that they are much more likely to preserve suitable lists than their *confrères* at home, and they will do this even though they may have no immediate enquiries for the goods concerned. Illustrations, of course, have a special value, but they must be practical and informative, and not merely pictorial. If really illustrative they double the clearness of the printed descriptive details, and to the foreigner with little or no knowledge of English they are the only portions of a list which tell him anything.

What a Price List Should Contain.

As far as possible, of course, all catalogues and lists should have their contents triplicated in Spanish and French as well as English, thus greatly extending the number of markets in which they can be serviceable. This is an act of courtesy as well as convenience to the foreign buyer.

All necessary details as to prices, discounts, shipping terms, exact specifications, etc., should be provided, c.i.f. rates should be quoted if possible, and code words supplied for every item, and for every possible variation of quantity, size, etc., in order to facilitate emergency ordering by cable.

Effective Distribution.

Finally, there is the question of effective distribution. Of course, the post runs wherever there is trade done in the world to-day, and cheap and rapid communication is accepted as a commonplace, instead of being regarded, as it deserves to be, as a miracle of organized service. The difficulty lies not in the actual work of distribution, but in obtaining reliable lists of addresses. It is this which gives advertising in a reputable journal with a genuine subscription list its chief advantage over circulars sent through the post.

In most of the British Dominions and in the more advanced foreign markets excellent directories are published which can be made of the utmost use to manufacturers. The original trouble and outlay in obtaining them are considerable, and so is the cost of their yearly renewal, but this is well repaid to the systematic circularizers.

Directories are, in fact, the only available means of starting the business of distributing circulars and price lists, and, useful as they are, it is necessary to recognize that they are by no means all that could be desired. They are, for example, prepared during the twelve months preceding publication and use, and for that reason are necessarily somewhat out of date. Further, in many overseas communities a considerable amount of movement is constantly taking place, rendering the directories still more rapidly out of date. The result is that a large percentage of every issue of circulars posted to addresses taken from directories may be expected to return through the Dead Letter Office. Only in the course of time, and as the result of accumulated knowledge and experience, can a reliable list of importers in any market be built up, and even so it must always remain subject to constant and careful revision if waste of postage and circulars is to be avoided.

CHAPTER IX

MAIL ORDER BUSINESS AND THE C.O.D. SYSTEM

THERE remains one method of doing export business which only needs to be touched upon briefly in passing, for it is only possible in a limited number of trades, and cannot be undertaken by any manufacturer or merchant engaged in the more orthodox and recognized branches of shipping. It is as possible to do an export mail order business as it is to trade through the post at home, and in a number of countries the same facilities are granted by the postal authorities. Naturally, however, the firm which thus deals direct with the public cannot expect to receive a single order from a shipper or a wholesale merchant abroad, nor will any retailer in an overseas market be prepared to stock or sell such a firm's goods.

Scope for Mail Order Business.

It cannot be denied, however, that there is considerable scope for mail order activities, and that some firms in the United Kingdom—mainly the large retail and co-operative general stores—do a very considerable business of the kind without making losses or causing detriment to themselves as a result of the antagonism of the regular exporters and importers, with whom, indeed, they neither require nor desire business relations of any kind. To them it is merely an extension of their home retail trade, and they find ready clients in most parts of the world, from well-to-do people in the United States, the larger Dominions, India, and the Latin Republics of South America, who will often pay any price for the privilege of being able to say that they obtain their luxuries direct

from London or Paris, to the planters and settlers in an East African Crown Colony, or in isolated Eastern stations, to whom shopping for necessities as well as luxuries is often a very difficult problem.

The building up of mail order business of this kind depends largely upon the reputation enjoyed in the home market, aided by a certain amount of advertising in colonial and foreign newspapers. As in the home business, too, each new client from whom an order is received is promptly placed on

a list of countries with which the system is in operation is included. In effect it resolves itself into a system under which the post office at destination collects payment before delivering a parcel, charging a small fee to the sender for this service. It is simplicity itself, and cuts out all possibility of misunderstanding or loss except in cases where perishable goods are refused acceptance by the consignee and cannot be returned to the sender.



Photo

PACKING GOODS FOR SHIPMENT
(Evan Cook's Depositories, Ltd.)

Kealeys, Ltd.

a mailing list, and from then onwards is the recipient of periodical circulars, catalogues, bargain lists, etc.

The Post Office as Accounts Collector.

The problem of payment is easily solved. The more substantial of such overseas clients open guaranteed credits in London, but the bulk of payments are made by international money order, or under the postal c.o.d. (cash on delivery) or v.p. (value-payable) system.

Details of the latter are given in full in the *British Post Office Guide*, and the working of the system is rendered quite clear, in addition to which

Limits of the C.O.D.-Service.

There are, of course, limits set to the scope of this service. For example, the maximum "trade charge" or amount to be collected by the postal authorities in respect of any one parcel, is £40. A special fee, ranging from 4½d. per £1 value, to 8s. 6d. per £40 value, has to be prepaid in stamps affixed to the parcel. In some countries a special delivery fee is also collected from the addressee. Parcels which cannot be delivered are returned at the sender's expense unless instructions for delivery to an alternate address are given at the time of posting, or that the parcel is to be abandoned.

The system is one which obviously has wide commercial uses, as well as offering a great convenience to the general public, though naturally it is not favoured by merchants apart from the relatively few exclusively using it.

CHAPTER X

THE MANUFACTURER'S AND SHIPPER'S JOINT INTERESTS

So far the subject of export trade has been treated entirely from the point of view of the manufacturer who desires to create an overseas enquiry for his productions, but at this point the interest broadens. Except in special cases the manufacturer's business is solely to make the goods and get them specified in importers' indents. He does not ship them, nor is he concerned with arranging credits and methods of payment. These duties lie with the merchant-shipper and the commission buying agent, concerning whose operations, however, everybody taking a hand in export trade should acquire an intelligent, if only academic, interest.

Merchants' Sorting-up Indents.

First, in regard to the merchant-shipper's activities, it is wise for the manufacturer to recognize that he is a buyer and a salesman as well as a distributor, even though only within the narrowing limits previously described. Apart from the commission buying which so many nowadays undertake in order to supplement their ordinary business, the merchant-shipper executes many occasional indents from the smaller type of importers in big and well-organized markets. Often these are in the nature of "sorting-up" indents from firms who are not in a position to employ buying agents, and whose requirements of individual lines would not make up a parcel worth shipping, but which bulk together to make a profitable consignment. The principal selling method in regard to such clients is to circularize them regularly, and to make them special offers through the post.

The merchant-shipper's chief activities, however, lie in native and undeveloped markets, where few or no large importers with home buying connections exist, and where the above methods of salesmanship are not only successful, but where the merchant-shipper can also stimulate business by the periodical despatch of travelling representatives.

The Merchant-Shipper's Friendship Necessary.

Thus, through the merchant-shipper the manufacturer not only obtains a considerable amount of business which results indirectly from his own and his agent's efforts to influence indents, but

also much of a miscellaneous character which would not otherwise reach him.

For this reason the manufacturer is debarred from making shipments on his own account, for he cannot afford to antagonize the merchant-shippers any more than he can dispense with the friendship of the commission buyers. His general rule must be "Indents through merchants only," and he will only have to undertake the entire process of shipping on the very rare occasions when exceptional circumstances remove all question of competition with the regular shippers—occasions so rare that the average manufacturer never meets them.

The Manufacturer's Share in Shipping Operations.

Nevertheless, the manufacturer shares with the shipper a considerable amount of the work and responsibility involved in the preparation of a consignment for shipment. Packing alone concerns him very closely, even if he does not undertake the work himself, but employs a professional packer. There are various detailed instructions which the shipper gives him to carry out, including "making up" the goods with special stampings and wrappings for different markets, markings for individual "marks," the preparation of invoices, declarations of value, and certificates of origin for customs purposes, and the provision of weights, sizes, and other particulars required by the shipping companies for calculating freight. Delivery at the docks within the time limit allowed for a particular vessel to load also has to be arranged, and, in fact, only the close and accurate co-operation of manufacturer and shipper up to the very moment of shipment ensures a satisfactory consignment.

Therefore it is true to say that the manufacturer's responsibility does not end before that of the shipper, for, frequently as the fact is misunderstood or not recognized, the shipper's responsibility to his overseas client actually ends when shipment is completed, and does not continue until delivery of the goods has been made.

Limits of the Shipper's Responsibility.

The explanation is simple. Although the shipper buys and pays for the goods as a principal, he ships them solely as the agent of the importer, arranging freight rates, insurance, etc., in that capacity, and not on his own behalf. This is the case equally when he ships on f.o.b. terms and when he gives the more comprehensive c.i.f. quotation. The latter merely lays on him the duty of arranging freight and insurance in addition to placing the goods on board, and evidence of this limitation is contained in the fact that the insurance policy is always taken out in the name of the importer. The goods are the absolute

property of the consignee as soon as they are placed on board, and if they are subsequently lost by fire, shipwreck, or other accident, it is he who suffers the loss, failing compensation, even though he has never taken personal delivery of, nor even seen, them. The point is an interesting one, though not always understood by those whose experience of export trade is limited.

In any case, it will be seen that from the moment an indent arrives for execution, the collaboration of the manufacturer and the shipper becomes essential and continuous until the moment the goods are embarked, and the former must understand

F.O.B.

The simplest and most commonly used is f.o.b., or "free on board." This includes first cost or ex-factory value, packing, transport to the ship's side, lighterage, loading and stowing charges. Freight and insurance are not included.

C.I.F.

More popular with importers, and therefore well worth any shipper's while to give in spite of the extra trouble involved, is c.i.f., meaning "cost, insurance, and freight." This covers not only the



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"The British Export Gazette"

MARSEILLES FROM THE HARBOUR

the processes involved equally with the latter. They only part company when it comes to financing a shipment and obtaining payment from the importer, which is purely the concern of the shipper or commission buyer.

CHAPTER XI

QUOTING AND SAMPLING

BOTH manufacturer and merchant-shipper must have an expert acquaintance with the different forms of quotations employed in export trade. A large number of terms are in general use, and each carries a well-defined interpretation covering a variety of duties and charges to be undertaken by the shipper.

f.o.b. price, but also all charges to the port of destination. It should be understood, however, that this does not include customs duties, landing charges, warehousing expenses, or transport costs of any kind after unloading, and is therefore not equivalent to a "through rate." Variations of c.i.f. are c.f. (cost and freight only), c.i.f.c. (cost, insurance, freight, and commission), and c.i.f.c.i. (c.i.f.c. with interest added).

Through Rates.

The quotation which most overseas importers prefer above all others is "through rate," but it is one which it is frequently impossible for a shipper to give owing to insufficient local knowledge. It means, of course, a quotation covering every charge from the factory to the consignee's

door, and is sometimes described as "Franco" or "Free Domicile." This must not be confused with "Franco Delivered, Custom House," which is simply c.i.f. plus landing charges; while another variation, "Free Duty, Custom House," means c.i.f. plus both landing charges and customs duties.

Variations of F.A.S.

There are a number of other terms in use, but the interpretations of most are even more dangerously varied than those of f.o.b. and c.i.f. For example, f.a.s. is frequently mistaken for the equivalent of f.o.b., whereas its actual meaning is "free alongside ship," and therefore omits loading charges. Local custom also produces variations of f.a.s., its interpretation at one port being that the goods must be placed in the steamer's shed, while at another port the obligation lies on the shipper to place them under the ship's tackle ready for handling.

Some Miscellaneous Terms.

Again, f.o.r. is used in Great Britain to mean "free on rail," which does not include payment of the railway charges. In America f.o.b. is also frequently used to indicate free on rail, and may have no reference to a ship. Another variation is f.o.t., or "free on trucks." D.d. means "delivered at docks" or "free at docks," and covers all charges until the goods arrive at the docks; it would at first sight appear to be the exact equivalent of "Free Port of Departure," but the latter is another of those extremely elastic terms which are best avoided, for it is variously interpreted to cover charges only to rail or docks, or to completion of loading on board ship. "Freight Forward" is a term used when the freight is to be paid by the consignee. "Ex-ship" is another term, interchangeable with "Free Overboard," indicating a sale of goods free of all charges up to the point of unloading, but not including lightering. Among other terms "Loco" holds a prominent place. It merely covers cost of goods where and as they lie, all further costs of packing and transport being borne by the buyer. When, however, the name of a place is attached, as in "Loco, London"—an equivalent of which is "Free Packed, London"—not only the cost of the goods, but their packing and delivery at the place named, is included.

Points for Consideration.

Enough has been said to demonstrate the extreme care necessary in the choice of terms when quoting. Equally, care must be taken to obtain exact rates of freight, weights and measurements of parcels, etc., before fixing the figure to be quoted. There is often more than one route or

rail and ocean service available, one probably being dearer than another. Again, it is folly to pay mailboat rates if an intermediate or cargo boat will arrive in time. There is also the question of weight or measurement in reckoning freight. Most shipping companies reserve the right to charge on either basis, according to which is the more profitable to them. Thus a light and bulky package would be charged according to size, and a small and heavy one according to weight. The ton measurement is based on a standard of 40 cubic feet, and it is worth noting for the simplification of calculations that two cubic feet are equivalent to one cwt.

What the Manufacturer Should Know.

Much of the actual work of preparing and forwarding quotations will, of course, be done by the shipper, who will require from the manufacturer merely the cost of the goods ex-factory, or possibly delivered at the docks. Nevertheless, there are many cases where the manufacturer, or his export department, must be capable of performing the entire process, notably when preparing export catalogues, or when the article he has for sale is of such a character as to elicit direct enquiries from possible users, as would happen in connection with a self-contained lighting set or similar machinery. Such enquiries would compel a certain amount of correspondence concerning descriptive details and c.i.f. prices, even though the ultimate order would have to be sent through a merchant house for confirmation if possible.

Export Sampling.

In some branches of trade, too, sampling is necessary as well as quoting. This is apt to be an expensive business unless done with expert knowledge and discretion. It is best done in co-operation with the commission buyers and merchant-shippers, who are usually prepared to pay bare cost, and to despatch the samples to importing connections to whom they are likely to be of practical interest and value. When sampling direct a fully detailed letter of advice should be forwarded by equal mail. In many countries samples are allowed to enter duty-free if first rendered unsaleable by some form of mutilation; or a remission of duty can be obtained when samples are re-exported after inspection by prospective buyers.

Incidentally, a word of warning is necessary. Do not scatter samples broadcast among the shipping houses in the hope that they will go to the expense and trouble of forwarding them to importers abroad, and do not take it too hardly if a shipper's staff sometimes obtain personal supplies cheaply by getting samples at cost and then retaining them.

CHAPTER XII

PACKING AND MARKING

PACKING for export is a highly skilled business which needs careful study and understanding. There are recognized methods and materials to be employed for various classes of goods and various markets, and it is only courting disaster to break away from accepted practice.

Specialist Packing Firms.

The manufacturer may pack his own goods, or he may employ a firm of export packers who will also undertake the work of delivering to the docks. In many cases his instructions from the shipper will include directions to place the packing and forwarding in the hands of a particular firm. Such specialist packers are fully equipped with baling and case-making plant, and frequently have warehouses with a properly constructed dock for loading and unloading vans. Indeed, many constitute themselves landlords with their shipping clients as tenants under agreements monopolizing the latter's packing. They rent or construct large buildings in shipping localities, take possession of ground floors and basements themselves, and let out the upper floors in suites of offices to shipping firms.

Shipper's Instructions.

We will suppose, however, that the manufacturer is doing his own packing. With each order from a confirming house he will receive detailed instructions as to the date the goods must be available at the docks, the ship they are to be despatched by, the method of packing, the "mark" they are for, the indent numbers for identification, the number and form of consular invoices, certificates of origin, declarations of value, etc., all of which must be strictly followed, no matter how pointless or unnecessary some may seem.

Purchase Notes.

Confirmation of the order will usually take the form of a "Purchase Note," also quoting details of the goods, marking, price, terms of payment and delivery instructions. One point will be strongly insisted upon in most cases, and that is that no marks, labels or advertising matter shall be included in packages which could lead to the identification of the manufacturer, so jealously do shippers and importers guard their own buying secrets.

Points for Packers to Note.

Coming to the actual process of packing, this, as already explained, is a matter for expert treatment. Various methods of casing and baling are followed according to the nature of the goods and

the idiosyncrasies of the market to which they are to be despatched. Numerous factors have to be taken into consideration. There is the question of cargo-handling equipment at the port of destination, and it is also necessary to know whether the goods will be lightered in an open roadstead or hoisted direct out of the hold and on to the quay. The treatment of packages in the one case is very different from that in the other, and precautionary packing may avoid serious damage and loss. Lengthy land transport may also have to be prepared for, in which case it must be known whether mechanical, animal or human carriage will be employed, and the size of bales or cases adjusted accordingly. Even such matters as the religious susceptibilities of native porters or the users of the goods may have to be taken into account, notably the Mohammedan objection to animal fat which enters into the composition of tarpaulins and some other packing materials.

The Art of Casing.

Speaking generally, wood casing is preferable to baling, though costing more. For machinery it is, of course, the only method. Usually a machine has the case built round it as it stands. A strong double keel of battens carries the floor of the case, and acts as a skid for running on rollers. Apart from the battens forming this skid all others should be fixed inside the case, and, in fact, projections of every kind should be avoided. Detachable parts, spares, screws and bolts, etc., should be separately boxed and fastened inside the main case; and suitable inspection traps should be constructed in the walls of the latter to meet the convenience of customs officials and to avoid the dangers attendant upon the process of uncasing and re-casing by inexpert labour at customs boundaries. The need for plugging small holes and protecting bright parts, screw threads, etc., with grease having a high melting point hardly requires reference, as it will be obvious.

Soft Goods Casing and Baling.

Soft goods may be either baled or cased. If the latter, the cases should be lined with tinfoil or zinc, soldered at the joints so as to be air-tight and water-tight. The extra cost is met by the fact that an f.p.a. (free of particular average) insurance policy may be taken out instead of the higher-rated w.p.a. (with particular average) policy. Bales should be of double canvas or sacking, lined with oiled linen or paper. They are shaped and compressed in steam or hydraulic presses, and bound with steel hoops or hempen ropes, allowances for a certain amount of subsequent springing always being made. It is the manufacturer's duty, before calling in the case-maker or baler, to arrange the goods in separate lots ready for

measurement, the inside dimensions of the case being thus obtained, and the weight or thickness of the packing materials added for computing the freight charges. Always when goods are sent to the packing department they should be accompanied by bale or case tickets, bearing the number of pieces, the mark, and the net, tare, and gross weights; while, at the same time detailed packing instructions are filled in on a separate printed form. In addition to the delivery instructions, any necessary directions or warnings to stevedores

according to the class of goods he is handling and the market he is shipping to.

Some Hints and Suggestions.

A few miscellaneous hints would include a reminder that small hardware, china and glassware, etc., travel best in kegs or barrels lined with quilted straw; furniture should generally be knocked-down for shipment; hollow-ware should be designed for close nesting without jamming or damage; twisted wire as a binding for cases is less likely to "jump" than hoop iron; joints of cases should be locked by driving nails at opposing angles; and all small packets and parcels should be separately marked with the nature and number of their contents before packing in bulk, this being an enormous convenience to the importer when unpacking.

CHAPTER XIII

SHIPPING AND FORWARDING

WITH the goods packed and marked, there remains only the work of arranging freights, method of shipment, insurance, and the preparation of bills of lading and other shipping documents. This is usually the responsibility of the shipping house, who will give detailed instructions to the manufacturer or to the packing firm employed.

Mail Boats and "Intermediates."

The first business is the selection of the ship by which the goods are to be carried. Every shipping company publishes lists of sailings, and from these the most suitable vessel can be ascertained. As previously explained, a fast mail boat will usually be chosen for perishable or small and valuable goods, while "intermediate" and cargo vessels will serve for general consignments provided that the goods are not urgently required, or the contract date too near.

"Alongside Date."

The next thing is to ascertain the "alongside date" for the selected vessel, as demurrage will be charged if the goods arrive before cargo can be accepted, and also if they are left behind through late arrival, to say nothing of the mortification and loss likely to ensue in the latter case owing to delayed delivery and broken contracts.



By permission

"Syren and Shipping"

CONVEYOR LOADING EQUIPMENT AT TYNE DOCK

should be boldly stencilled on two or more surfaces of the case or bale.

Making-up for Shipment.

Incidentally, soft goods have to undergo the process of making-up for shipment before packing. This consists of folding in correct shapes and lengths, ticketing or stamping, and separate wrapping. It is unnecessary to give here the multitude of details involved in the treatment of such various articles as shirtings, prints and fancies, brocades and sateens, etc., or the differences between "print-fold" and "square-fold," coloured or plain paper wrappings, board mounts, etc. These should be ascertained by every shipper

The Merchandise Declaration.

The shipping company must be notified before despatch of the goods, and this must be done on a document known as a Merchandise Declaration, the blank form for which can be obtained from the shipping company. This Declaration gives full details of the consignment, nature, and number of packages, etc., and without it the goods will be unable to pass the customs, and the shipping company will be unable to accept them, effect insurance, or proceed in any way.

"Freight Note" and "Mate's Receipt."

In exchange for the Merchandise Declaration the shipper receives from the shipping company a Freight Note, or statement of the freight charges, and three copies of a bill of lading, which contains full details of the consignment, and is legal proof of shipment. Usually the bill of lading is not completed until after shipment, and a Mate's Receipt is given for the goods, being exchanged later for the bill of lading.

"Manufacturer's Advice Note."

The manufacturer who acts under instructions from a shipper, receives his instructions in the form of a Manufacturer's Advice Note. This is usually quite simple and general in its terms. It would direct the manufacturer to send forward the specified goods to the order of the shipping company for shipment by a particular boat, to use certain markings, to advise the consignees of the contents, value, and gross weights of packages, and to supply the necessary invoices, etc.

"Consignment Note" and "Weight Note."

Having received this Advice Note, the manufacturer's next duty is to have the packing done as described, and then arrange for transport to the docks. Either the packing firm or a carrier will be employed for this, and will have to be given a Consignment Note, which is simply an instruction to carry certain goods as specified on the note. At the docks the carrier has the goods weighed and receives a Weight Note on which the charges for carriage are made.

This is sufficient in most cases, but there are special branches of the export trade, notably in doing business with Bombay, where it is necessary to obtain a carrier's receipt, signed by the wharfinger, to serve as a certificate of delivery and to be forwarded to the importer with the bills of lading.

Punctuality at the Docks Essential.

These, however, are elementary details which any experienced shipping clerk will have at his finger tips. The important point to bear in mind is the need for punctuality in placing the goods at the ship's side. To be too early may mean

unnecessary expense, but to be "just in time" may be too late in the case of an overfull ship, or in such a case as when the goods offered are unsuitable for packing on top of a nearly-full hold and therefore have to be rejected.

CHAPTER XIV

FREIGHT

IN connection with the process of shipping goods, questions affecting freight rates and arrangements, and those concerning the preparation and uses of bills of lading, bulk far more largely than any others.

Freight Schedules.

Freight charges, as already explained, are based on either ton-weight or ton-measurement, 40 cubic feet being the standard for the latter. The rates per ton vary for different classes of goods, and while many shipping companies adopt broad and simple group classifications, others work on detailed schedules, quoting separately for every kind of article. The group classification is easier for the shipper to follow, but under a detailed schedule he gains an occasional advantage in the shape of a specially low rate on a particular article which happens to be the object of keen competition. The chartering of a vessel is an entirely different matter, involving an agreement, or charter-party, according to the circumstances of the voyage and the state of the freight market, and need not be dealt with at length here.

When Freight Becomes Payable.

It should be understood that freight does not become payable until the shipowner has completed his contract to carry the goods; in other words, payment is not due until the end of the voyage. It is necessary to realize, however, that the shipowner's claim for freight becomes valid from the moment he has offered the goods for delivery at the port of destination, and the fact that for any cause the delivery is not actually made does not in any way vitiate his claim. It is against the shipper that this claim is primarily made, except in cases where the shipper makes it quite clear that he is merely acting as an agent. Actually, of course, the shipper is acting as agent for the importer in nine cases out of ten, but he either does not raise the point with the shipping company, paying the freight himself and adjusting the matter in his account with the importer, or the latter, on receiving the bill of lading and other documents, automatically takes over the responsibility for unpaid freight by proving his ownership, and consequent right to take delivery, of the goods.

Shipowner's Lien.

Even damage to, or total loss of, the goods does not necessarily vitiate the shipowner's claim to freight, though either of these things may lay him open to an action for damages. Equally, although the shipowner may retain the goods in cases of non-payment of freight, his right in this respect being described as "Shipowner's

a special agreement that the freight shall be paid by the consignee. "Freight subject to insurance" describes a contract under which the cost of insurance is omitted from the freight charge, the shipper taking out a policy independently.

In Case of Damage.

The general principle in regard to damage to goods during a voyage, is that freight is due if



Photo

Kealeys Ltd.

AN EXPORT PACKING DEPARTMENT
(Messrs. Burgoyne, Burbidges & Co., Ltd.)

Lien," he thereby gains no proprietary right over them, nor may he dispose of them in settlement of his claim.

Forms of Freight Contracts.

There are several forms of freight contract into which the general shipper may occasionally find it necessary to enter, but these would not generally come into operation on routes covered by regular steamship services. "Time freight," for example, describes an arrangement for periodical payments for the use of a ship. "Lump freight" means a total payment in one sum for a voyage, and would generally only apply in cases where an entire vessel is chartered. "Freight forward" indicates

the nature of the goods is not essentially changed by such damage. In other words, if the shipowner delivers what he contracts to deliver, no matter what its condition, freight is due to him. The same applies if he is obliged to tranship the goods to another vessel. If the goods have to be disposed of at a point short of the contract voyage freight is still payable, but only a portion *pro rata* to the portion of the voyage completed. All these rules, however, may be varied by special clauses inserted in contracts or bills of lading, and it is therefore the duty of the shipper to make himself acquainted with, and, if necessary, to challenge, any such clauses which he may not be prepared to accept.

Primage.

In connection with most freight contracts the shipper will find a charge for "Primage." This represents an allowance by the shipper to the shipowner in consideration of the use of the ship's loading and unloading appliances. The term "Primage and Average Accustomed" has a somewhat wider meaning, as it stands for a *pro rata* payment by cargo-owners not only of primage, but also pilotage, wharf dues, and similar expenses.

"Commission" or "Rebate."

"Commission" is another form of charge which shipowners—especially members of "rings"—include in their freight rates with a view to holding it for a fixed period as a guarantee that the shipper will not employ any competitive vessels during such period. If the shipper remains loyal to the shipowner or group of shipowners he receives a credit note for the amount of commission thus retained, and this is described as a "rebate."

Demurrage.

Demurrage is a charge made to compensate the shipowner for any delay occasioned to a vessel by the shipper or the consignee in loading or taking delivery of his goods. In a general way "reasonable diligence" must be used in these operations, but usually definition is given to this term by the specification in bills of lading and charter-parties of definite periods, or "lay days," on the expiry of which demurrage at an agreed rate per day becomes due. "Conditional lay days" are additional lay days allowed on the condition that a certain payment per day is made for the privilege. Only if it can be proved that delay has been occasioned by the shipowner's negligence can demurrage charges be disputed, and, unless "working days" or "weather working days"—the latter meaning days on which weather conditions permit work—are specified, lay days are interpreted as running consecutively and including Sundays and holidays. Something may sometimes be saved by an "averaging clause," under which days lost at one port may be compensated by days saved at another. Otherwise, lay days must be understood to commence from the moment the vessel reaches its port of destination, or, if a particular berth is specified, from the moment the vessel is placed in such berth.

Standard Forms of Contract.

To avoid confusion it may be explained that demurrage is a term which is also used to cover charges for loss or delay due to collision or other causes against persons responsible for the same.

It will be seen from the foregoing that freight contracts may easily be fruitful of misunderstandings and disputes, particularly in regard to miscellaneous consignments by what are popularly

known as "tramp" steamers. As, however, steamship companies providing regular services on recognized routes invariably have a standard form of bill of lading or freight contract, subject to constant scrutiny by shippers' associations, the position of the majority of shippers is not so difficult as might appear.

CHAPTER XV

SHIPPING DOCUMENTS

A BILL of lading is a document of such importance in shipping operations that some more detailed understanding of its nature and uses is required than can be gathered from previous passing references to it.

Bills of Lading.

Roughly it may be described as a specification of a consignment of goods, showing the exact terms of the contract between shipper and shipowner, and constituting a proof of ownership. Without it the consignee cannot take delivery of the goods, nor can an advance on the value of a consignment be obtained from a bank. It is the shipowner's complete receipt for goods entrusted to his care by the shipper. Different forms and wordings are used on various routes and in various trades, but in essentials all are the same. Once a bill of lading has been accepted and signed, the shipper is bound to pay the agreed freight even if he withdraws the goods before sailing.

The Principal Shipping Document.

A bill of lading is the principal item in what are known as shipping documents. It is drawn up in sets of three or more, each a copy of the others, and these are known as "parts." Usually the shipper keeps one, and forwards two others by different vessels to the consignee, while the ship's captain keeps a fourth. The first to be presented on arrival of the ship obtains delivery of the goods, and thereby renders the other "parts" void. From this it will be seen that it is important that at least one "part" should be sent by a fast mail vessel to arrive before—or at least simultaneously with—the goods, otherwise the consignee will be unable to obtain delivery, and loss or demurrage may be incurred.

"To Order."

Usually bills of lading are made out to consignee's name; but if made out "to order" instead it is essential for the shipper to endorse them. Without such endorsement they are valueless, and the consignee, unable to prove ownership, cannot take delivery of the goods.

What a Bill of Lading is Like.

A common form for a bill of lading is a tabulation in four columns, showing the "marks" on the packages, their number, their character (cases, bales, barrels, etc.), and their contents and gross weight. On the same sheet is a declaration that the goods have been shipped "in apparent good order," with the names of the shipper and the consignee, and then in printed paragraphs the various conditions of the contract under which the goods are carried.

A Quasi-Negotiable Document.

A bill of lading can be described as a quasi-negotiable document because it can be endorsed and transferred to a bank or an individual for the purpose of obtaining an advance on the value of the goods for which it is a certificate of ownership, and it can also be used as a means for ensuring and obtaining payment for such goods. In brief, ownership of the goods can be transferred by endorsing the bill of lading to the transferee.

Hypothecation of Documents.

In the first case the process of "hypothecating" the shipping documents is accomplished. The bill of lading and a draft or bill of exchange accepted by the consignee are deposited with a bank, which on this security advances part of the value of the goods at interest. Such an advance, however, can only be obtained if all the principal "parts" forming a "set" are deposited, the obvious reason for this being that the holder of any part who presented it first would be entitled to obtain delivery of the goods. The bank advancing the money would forward the bill of lading with the bill of exchange for collection to its agent, and only on the consignee meeting his acceptance would the bill of lading be handed to him.

Payment Against Documents.

In much the same way the shipper can safeguard himself by obtaining "payment against documents." He would simply forward the bill of lading to a bank at the port of destination, with instructions to collect the amount due before handing it over to the consignee, and also giving directions as to the disposal of the goods in case of the latter's default.

Consular Invoices and Customs Declarations.

Other shipping documents include such instruments as consular invoices, customs declarations, etc., without which it is impossible to obtain entry of goods into many countries.

Shipments to practically all foreign countries must be accompanied by sets of invoices, varying in number and certified by the consuls of the respective countries, which are required for the

purpose of charging import duties by the customs authorities. It is impossible here to set out the requirements of each country, but, apart from the number of copies or the language in which they must be prepared, such consular invoices must consist of a list of the goods contained in a consignment showing ex-factory cost, with a declaration of accuracy by the shipper and the endorsement of the consul in the country of shipment.

Certificates of Origin.

Similar documents, known as certificates of origin (p. 841) and giving a statement of where the whole, or a percentage, of the articles shipped was manufactured, are required in the principal British Dominions in order to secure preferential allowances off the duties on British goods, or on those coming from countries affording reciprocity advantages. In most cases specified forms are used. Foreign countries and Dominions which impose anti-dumping or similar duties also require "home value declarations," showing the price at which similar goods are selling in the country of origin at the time of shipment.

Bills of Entry.

A "bill of entry" is simply a shipper's statement in detail of the nature and value of goods contained in a consignment, and is also used for customs purposes. It should not, however, be confused with a "customs declaration," which is a statement of the nature and net weight of goods sent abroad by post.

CHAPTER XVI

MARINE INSURANCE

THERE remains to discuss one other shipping document of the highest importance, viz., the Insurance Policy. The age-long risk of shipwreck remains with us to-day, though in minimized form, while such "risks" as damage from fire, water, breakage, pilferage, extremes of temperature, and deterioration from innumerable causes, are as great as at any time in the past. Therefore insurance is a vital feature of every shipping operation, and marine insurance has developed into a distinct, separate, and highly complicated branch of insurance business as a whole.

Who is the Insurer ?

In approaching the subject of marine insurance there are a number of general principles of which the shipper must obtain a clear conception. In the first place he must realize that he should not take out a policy on his own account in respect of the average consignment, the reason being that, as previously explained, from the moment of shipment the goods pass from his ownership to that

Invoice and Certificate of Origin for Canada

LONDON.....19.....

GOODS PURCHASED FROM GREAT BRITAIN AND BRITISH COLONIES ENTITLED TO BRITISH PREFERENCE

Invoice of Books purchased

by.....of.....

from

SIR ISAAC PITMAN & SONS,

LIMITED,

PUBLISHERS,

PARKER STREET, KINGSWAY, W.C.2

to be shipped per.....Terms.....

Marks and Numbers on Packages.	QUANTITIES AND DESCRIPTION OF GOODS.	Country of Origin.	Fair Market Value as Sold for Home Consumption.				Selling Price to the Purchaser in Canada.			
			@	£	s.	d.	@	£	s.	d.

I, the undersigned, do hereby certify as follows—

(1) That I am the.....exporters of the goods in the within invoice mentioned or described ;

(2) That the said invoice is in all respects correct and true ;

(3) That the said invoice contains a true and full statement showing the price actually paid or to be paid for the said goods, the actual quantity thereof, and all charges thereon ;

(4) That the said invoice also exhibits the fair market value of the said goods at the time and place of their direct exportation to Canada and as when sold at the same time and place in like quantity and condition for home consumption in the principal markets of the country whence exported directly to Canada, without any discount or deduction for cash, or on account of any drawback or bounty, or on account of any royalty actually payable thereon when sold for home consumption but not payable when exported, or on account of the exportation thereof or for any special consideration whatever ;

(5) That no different invoice of the goods mentioned in said invoice has been or will be furnished to any one ; and

(6) That no arrangement or understanding affecting the purchase price of the said goods has been or will be made or entered into between the said exporter and purchaser or by any one on behalf of either of them, either by way of discount, rebate, salary, compensation, or in any manner whatsoever other than as shown in the said invoice.

(7) That each article on this invoice is *bona fide* the produce or manufacture of a country entitled in Canada to the benefits of the British Preferential Tariff and specified on the invoice as its Country of Origin, and that each manufactured article on the invoice in its present form ready for export to Canada has been finished by a substantial amount of labour in such country and not less than one-fourth the cost of production of each such article has been produced through the industry of one or more British countries.

Dated at LONDON

this.....day of.....19..... } Signature

of the consignee. It is, therefore, in the latter's name that the policy must be taken out and all claims made. The actual work must be done by the shipper, but solely as the agent of the consignee. That is a point which will be clear on very brief reflection.

Insurable Interest.

The next point is that no policy can be legally enforced by any one who does not possess what is known as an insurable interest in a consignment. In other words, the insurer must have a proprietary

insurance damaged goods still remain the property of the consignee, who must dispose of them to the best advantage, and then base his insurance claim solely on his loss, which is, of course, the difference between the sum realized and the market value of similar undamaged goods. It is not within the ability of the insurer to throw damaged goods on the hands of the underwriters and claim total compensation. Of course, there is such a thing as "abandonment," when the "constructive total loss" of a vessel is understood, and ownership in it is transferred for what it is worth to the



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"The British Export Gazette"

MARINE SQUARE, TRINIDAD

right in the goods, or at least an expectation of profit from them. There is, therefore, no opportunity for speculative insuring, and this is rendered doubly true by the fact that over-insurance in any form is profitless because only compensation for actual loss sustained can be recovered. It sometimes happens, for example, that both shipper and importer take out a policy on the same consignment, each under the mistaken impression that the other is not taking the responsibility for this duty. Or in other cases, when doubt arises as to whether the full risks have been covered, a second policy is taken out. This is known as "double insurance," and under certain conditions excess premiums can be recovered, but compensation paid on either or both policies is limited, as stated, to the actual loss sustained.

Ownership of Damaged Goods.

It should also be understood that in marine

underwriters, but that, as explained, does not apply to merely damaged cargo.

The Limitation of Claims.

The correct principle to follow is to effect insurance on invoice value, interest, freight, and all other charges to the consignee's door—in short, the delivered value of the goods. This makes the margin between damaged value and market value the true measure of the consignee's loss, whereas the more parsimonious method of covering only invoice value and interest would leave the amount recovered wholly inadequate after paying freight and other charges on the damaged goods. It is true that in cases of total loss the extra premiums paid to cover transport and landing charges would seem to have been wasted, but this can be met by inserting in the policy a clause providing that the invoice value and interest shall be covered in case of total loss, and a further amount if the

THE MARINE INSURANCE COMPANY, LIMITED,

87 HUDSON STREET,

LONDON, E.C.

No. 57415.

Whereas it hath been proposed to *The Marine Insurance Co., Ltd.* by
Henry Jackson and Sons

as well in *their* own name as for and in the name and names of all and every other person or persons to whom the subject matter of this Policy does may or shall appertain in part or in all to make with the said Company the Insurance hereinafter mentioned and described;

£ 6000 - 0 - 0.

IN CASE OF DAMAGE THE SAME
TO BE CERTIFIED BY

Shipwrecks to Rosario
held covered at 2/6%
additional premium.
Including risks of rail
from interior to port of
shipment.

Including the risks of
fire from the discharge-
ing of the goods from
the warehouse in the
interior whether in
transit or transshipment
or until final delivery
at destination.
Shipwrecks from Antwerp
and or Hamburg and
or Bremen held covered
at 1/3% additional
premium.

Including risks of petty theft.

Including risks of fire whilst stored in Custom Houses at Montevideo, and or
Buenos Ayres, and or Rosario, and or Orancon for two months from
the day of landing.

Covering also risks of earthquakes or any kinds of seismic eruptions.

In estimating particular average claims, the depreciation to be based on the
arrived sound and damaged values excluding the freight and duty, pay-
able at destination, and in case of damage the sale of whole packages to
be allowed. Particular average claims to be paid in full irrespective
of time between date of arrival and date of survey.

Including risk of craft

AND the said Company promises and agrees that the Insurance aforesaid shall commence upon the said Freight Goods and Merchandise from the time when the Goods or Merchandise shall be laden on board the said Ship or Vessel Craft or Boat *as above* and until the said Goods or Merchandise be discharged and safely landed *at as above*. AND that it shall be lawful for the said Ship or Vessel in the Voyage so insured as aforesaid to proceed and sail to and touch and stay and to receive and land Cargo and Passengers at any other Ports or Places *en route* for any purpose whatever and in any rotation without prejudice to this Insurance. AND touching the Adventures and Perils which the said Company is committed to bear and does take upon itself in the Voyage so insured, they are of the Seas Men-of-War Fire Enemies Pirates Rovers Thieves Jettisons of Goods and Merchandise and of all other Perils and Misfortunes that have or shall come to the Goods and Merchandise insured. AND in case of any Loss or Misfortune or any part thereof including all risks incidental to Steam Navigation especially those arising from accidents to Boilers and Machinery. AND in case of any Loss or Misfortune it shall be lawful to the Insured their Factors Servants and Assigns to Sue Labour and Travel for in and about the Defence, Salvage and recovery of the aforesaid subject matter of this Insurance or any part thereof without prejudice to this Insurance the charges whereof the said Company will bear in full. AND the recovery of the aforesaid subject matter of this Insurance or any part thereof and agreed that the acts of the Insurer or Insured in recovering saving or preserving the property insured shall not be considered an acceptance of abandonment. AND it is expressly declared and agreed that Corn, Fish, Salt, Saltpetre, Fruit, Flour, Rice, Seeds, and Molasses shall be and are warranted free from average or unless general or the Ship be stranded and that Sugar, Tobacco, Hemp, Flax, Skins, and Hides, shall be and are warranted free from average under Five Pounds per centum and that all other goods and also Ship and Freight shall be and are warranted free from average under Three Pounds per centum unless general or the Ship be stranded, sunk or burnt. Amount of average Salvage and Special Charges to be paid as per Foreign Statement if so claimed.

This Policy being issued in London all losses and claims arising hereon are to be recoverable only according to the custom and usages of Lloyds unless otherwise stipulated by the terms of the Policy.

IN WITNESS WHEREOF the said Company has caused this Policy to be signed on its behalf by its duly authorised Agent in that behalf.

LONDON, *Nov. 14*, 1922.

Examined *S. S.*

S. Simpson

Agent and Underwriter.

goods are carried to the destination, damaged or otherwise.

Forms of Marine Insurance.

Subject to these considerations there are two principal forms of marine insurance, or, to put it in another way, two principal classes of risk. The first of these is w.p.a., or "with particular average," sometimes called a.a.r., or "against all risks." This covers every kind of loss or damage, and is used for costly or easily damaged goods. "Average," it should be understood, means "sea loss," and is derived from the Norse word "haf," meaning "sea." "Particular" is used in this connection to differentiate the risk from "general average."

"General Average."

The latter term covers loss and expense sustained in preserving the entire ship or cargo. It is literally "general" to all the owners of both, and is therefore borne by them *pro rata* to the value of their respective proprietary interests.

"Particular Average."

"Particular average," on the contrary, refers to loss sustained independently of damage to the ship, no matter from what cause, and also covers individual loss arising out of total disaster to the ship.

"With Particular Average."

W.p.a. is accordingly the most comprehensive form of insurance, and the most costly, though a reduction of the premiums may usually be obtained in consideration of special packing, such as hermetically-sealed cases, or exceptionally strong and expertly designed cases for machinery.

"Free of Particular Average."

A cheaper form of insurance is f.p.a., or "free of particular average." This is applicable mainly to rough goods incapable of ordinary accidental damage, and liable only to total loss in case of the sinking of the vessel.

The Insurer's Procedure.

Between these forms of insurance the shipper should have little difficulty in making his choice according to the nature of the goods he is shipping. The procedure in effecting an insurance is not by any means complicated. It is possible to go direct to an insurance company, but a broker must be employed in dealing with underwriters at Lloyd's. A good broker under any circumstances can render services of the utmost value, not merely in getting the best possible terms—incidentally,

the lowest rates are not always the cheapest—but in expert advice and assistance in drafting the proposal and the policy. His remuneration is 5 per cent of the premiums agreed upon, and is paid by the underwriters.

The "Proposal."

The first step is the drafting of the "proposal" or "slip." This contains the details of the risk which it is desired to cover, and is laid before one or a number of brokers. In the latter case, each quotes for a share of the risk and initials his quotation. On the basis of this completed slip a policy is drafted by the broker, or, if an insurance company is being dealt with, the latter will usually prefer to prepare the policy. It is possible while waiting for the policy to take out a "provisional note," which is an acknowledgment by the underwriters that the shipper is covered to a certain amount, and one advantage is that the completion of the policy can be delayed for the insertion of details concerning the goods to be insured. The policy should as a rule cover risks right from the shipper's warehouse to the consignee's door. Special risks should always be covered by specific clauses in the policy.

"Floating Policies."

A shipper who is periodically sending forward a series of consignments over the same route and under similar conditions, frequently finds it convenient to take out a policy for a lump sum, declaring details only as he makes shipments, and having these endorsed on the policy until the amount is exhausted. This is known as an "open" or "floating" policy.

Outward and homeward consignments can also be covered under one policy, and, if at different rates, an adjustment can be effected on the exhaustion of the policy.

How to Make a Claim.

When loss occurs and a claim has to be made, the usual procedure is for the consignee to advise the shipper, and at the same time forward him a "captain's protest," a surveyor's certificate of the amount of the damage, and an auctioneer's sales account showing the actual amount realized on the damaged goods. The "captain's protest" is a sworn statement of the circumstances under which the damage was sustained and a "protest" against whomsoever is legally liable for the occurrence. An "average adjuster" is called in by the shipper to prepare the claim, which then goes to the underwriters for settlement.

The foregoing is but a brief survey of a difficult and complicated subject, but it will provide the average business man with a working idea of the principles and procedure involved in the ordinary run of such business.

CHAPTER XVII

BILLS OF EXCHANGE AND
METHODS OF PAYMENT

WE come now to the all important question of obtaining payment for goods shipped to an overseas buyer. There are a number of methods in common employment in serving different markets and different classes of customers.

Cash Against Documents.

"Cash against documents" is one of the most favoured, for it involves little risk or delay. Under this system, as previously described, the bills of lading and other shipping documents are forwarded to a bank at the consignee's port, and the consignee can only obtain delivery of the goods by paying the amount involved in exchange for the bills of lading. The only risk is that the consignee may not be able to pay, or may decide that he does not require the goods, in which case the bank takes delivery of them and sells them for the shipper at the best terms obtainable—terms which naturally are not always as good as the original price.

Remittance Terms.

In other cases payment is made by direct remittance, but this involves a certain amount of credit, and the shipper is dependent on the honesty of the consignee. Obviously, the latter will be frequently tempted to delay forwarding a remittance in the hope of gaining benefit from alterations in the exchange rates, and, if short of money, he will allow a remittance to wait while he meets drafts, payment of which is compulsory to save his credit. In arranging remittance terms, therefore, it is always advisable to fix a definite time limit and a rate of interest to be paid in case of delay.

Telegraphic Transfers.

A form of remitting cash is by telegraphic transfer, the consignee paying in to his local bank to the credit of the shipper, and the credit is then cabled to the English bank, a commission and the expense of cabling being charged for the service.

There are other methods, such as the importer opening an account with a home bank or a reputable home business connection, and payments being made therefrom as they become due; but the method of payment in most general use is by bills of exchange or drafts.

Bills of Exchange.

A bill of exchange is an unconditional order by one person to another to pay a specified sum to the order of a third person or "to bearer." It can be drawn "on demand," "at sight," "at usance" (according to the usance of the market),

or so many days "after date" or "after sight." It is drawn in triplicate, and is sent to the customer on whom it is drawn, and he "accepts" it by writing the word "accepted" across the face of the first copy to arrive with the date and his signature, returning it to the drawer. An accepted bill must be met or renewed at due date; there is no option in the matter for the acceptor, whose action in accepting is also equivalent to a voluntary admission of indebtedness, thus obviating disputes on the subject.

A bill of exchange is perfectly simple in form and wording, as the following model shows—

At 60 days sight of this First of Exchange
(second and third unpaid), pay to the order of
..... *The Drawer or Payee* the sum of
..... *One Hundred Pounds* value received,
and place the same to account as advised.

..... *The Drawer*
To *The Drawee*
..... *Cape Town*

Usance and Interest.

The usance in various markets ranges from sight to 120 days, the factors controlling this being distance and customary credit. Interest should always be included in the amount for which the bill is drawn, and such interest should not only cover the time of the bill, but also the time required for its return accepted. All bank charges should be paid by the acceptor.

Special Terms.

By the insertion of special clauses the terms of a bill may be varied, as in providing for meeting it by return drafts on London, in which case, by the way, interest for the whole of the period for double transmission and maturing must be carefully worked out and included. The great point to remember in drafting a bill, and in inserting special clauses, is to avoid anything which may seem to affect its unconditional character as an order to pay. It is because it is an unconditional order that it is negotiable, and can therefore be discounted. In drawing on a firm of poor credit the bill is strengthened by the insertion of the clause in the bottom left-hand corner, "In case of need apply to Messrs. So-and-so," which signifies that the firm in question will accept it for the honour of the drawer if the drawee defaults.

In Case of Default.

Should default actually occur, the proper course is to have it "noted" and "protested" by a notary public. In other words, the notary formally presents the bill for payment, and on this being refused he draws up a declaration of the facts and protests against the action of the drawer, giving notice when doing so both to the acceptor

and to the last endorser. This is a necessary preliminary to legal proceedings for recovering the amount of the bill.

Discounting a Bill.

The negotiability of a bill is one of its most valuable features, for this enables the shipper to use his money instead of allowing it to be locked up at a small rate of interest. Indeed, unless bills could be freely discounted shippers would require far larger working capital than they usually

the shipper and returns him the unadvanced balance of the amount of the bill.

Uncertainty of the "Paper" Market.

It must not, however, be assumed that at all times discounting can be accomplished with equal facility. The market in "paper" fluctuates according to the availability of money and the number of bills being offered for discount. When there is a glut of bills, or times are difficult, small bills and those bearing weak names are apt to be



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NANKIN ROAD, SHANGHAI

possess, or else would have to restrict their operations severely.

The Discounter's Security.

Security must be provided before a bill can be discounted, and this is provided by "hypothecating" the shipping documents. In other words, the full set of bills of lading, insurance policy and invoice, accompanied by a letter of hypothecation, are handed over to the bank or discounting house with the bill of exchange. The letter details the documents and authorizes the discounter to dispose of the consignment of goods in the case of the bill being dishonoured. On this, if the security is approved, the shipper is credited with a percentage—from 50 per cent to over 90 per cent, according to the conditions—of the value of the bill, subject to interest. When the bill is eventually matured and honoured, the discounter notifies

disposed of with difficulty and on onerous terms, or rejected altogether. As a rule, however, there is a more or less free market in paper.

Credit Terms.

In arranging payments and credit terms the custom of the particular market must usually be followed, yet a certain elasticity is called for. Sympathetic treatment of overseas buyers in this respect is often the deciding factor in competition, both as between individual firms and as between exporting countries. Credits are affected by such factors as distance and the nature of the importing country's principal industries, the latter, perhaps, having a seasonal output, as in the case of agriculture, and therefore a seasonal period of financial liquidity for making payments. Recognition of this is a guide in making terms wisely liberal.



DELIVERING MACHINERY FOR EXPORT FROM RAILWAY TRUCK

CHAPTER XVIII

SOME GENERAL HINTS

IN conclusion, a few general suggestions may be of service to the manufacturer or merchant engaged in organizing an export department and in building up trade with foreign and Imperial markets.

The Export Department a Separate Entity.

The first is a reminder of the importance of treating shipping operations more as an independent business and not a mere subsidiary department. The customers, the methods, and the requirements are all different from those in the home trade, and the work must therefore be performed on independent lines.

The Selling System.

The method of export salesmanship must be decided upon, and then strictly adhered to. Preferably the commission representative or agent should be employed to influence indentors, and then indents should be accepted only through recognized merchant channels. If for any reason this method is not suitable in a minority of individual cases, the exporter's scope is likely to prove more limited, and his risks greater, than if he were able to adopt the more universal practice.

British Chambers of Commerce Abroad.

He is a wise man who strengthens his position by keeping in close touch with, and even becoming a member of, the influential British Chambers of Commerce established by British firms located in various overseas centres. The services rendered to British manufacturers by H.M. Trade Commissioners in India and the Dominions are invariably of a very practical nature, and should also be utilized through the medium of the Department of Overseas Trade, 35 Old Queen Street, Westminster, S.W.1.

The Clerical Department.

Give careful attention to the clerical department. The ordinary commercial clerk knows nothing of the complicated export necessities, and only experts in preparing shipping invoices, dealing with foreign bills, and handling foreign correspondence should be employed. A special system of book-keeping is also essential, and shipping accounts can never be worked satisfactorily if mixed up with the general business of a firm.

Trade Marks Registration.

Another point is the need for the careful registration of trade marks abroad. Such marks often provide a bigger goodwill, and are a more freely accepted guarantee and means of identification to foreign buyers than those acquainted only with home trade can find it easy to realize. Registration in the United Kingdom gives no protection, nor even prior rights, in many foreign countries where piracy of English marks is a common practice. Expensive though the process may seem registration should be carried out as comprehensively as possible, and should never be left until after the market has been tested and a certain amount of goodwill created to attract the attention of pirates. Further, trade marks for overseas use should be explanatory, distinctive, and not easy to imitate colourably. A simple and clear idea should be conveyed by such marks, for a pictorial representation will often solve the language difficulty and at the same time catch the fancy of native buyers and users.

Get Into the Indents.

As a last word of advice, let every energy be bent on interesting the overseas buyer in your goods. Do not be content merely to get in with the home buyers for firms abroad, because such a policy will not get your goods specified in indents, but will only bring you the comparatively small margin of free orders.

SECTION 37

How to Get Foreign Business

By WALTER O. STEIN, B.A. (Lond.), F.R.Econ.S.

CHAPTER I

HOW TO CONDUCT YOUR FOREIGN DEPARTMENT

If the old adage sounds hackneyed, that "an ounce of practice is worth a pound of theory," there is at any rate one branch of commerce to which it may be applied without any fear of redundancy, namely, the acquisition of foreign business. A great deal of *preliminary* matter may be learnt in theory beforehand, such as, for instance, the routine and procedure in the export trade, but it is only the practical trader who has had the *practical* experience and can from his own personal knowledge improve on the text-book, who can hope to succeed; and in this section the writer's aim will be to explain from personal experience the best methods of *getting* the business, and also to give some hints on how to avoid a few of the pitfalls which confront the beginner.

A Separate Department Advisable.

Starting with the organization in your own office, it will be necessary, in the first place, to separate your foreign department from your other departments entirely, and to place it, in the interest of absolute efficiency, under the control of someone who is specially qualified to organize it and guide its destinies. The highly specialized nature of modern commerce and its vast ramifications demand this. Where for some reason or other this is impossible, it is certainly advisable to have the assistance of someone practically versed in the intricacies of foreign trade. But this latter course would only be advisable in cases where it is necessary to commence in a small way, and where the circumstances will not permit of any wider extension. In the ordinary way, however, the first step will be the appointment of a manager who is fully qualified by personal experience, and who is prepared to undertake the full responsibility for the working of his department. He should be personally acquainted with the countries with which it is intended to do business, and previous experience in foreign trade is a *sine qua non*. As a general rule, too, it is vitally necessary for him to have a good working knowledge of the main commercial languages used in the respective countries. These, as will be shown later, are not necessarily the

actual spoken languages of the countries in question, and in some cases English will often do as well as any other language. To insist upon the point that your foreign manager right from the beginning has had a *practical* acquaintance with the trade of the respective countries, is a safeguard against the pitfalls into which the inexperienced fall only too often.

Responsibility of Manager.

Although a certain amount of control may be advisable, the writer has always found that the best results are obtained where the manager is allowed to pick and choose his own subordinates. Apart from the ordinary fact that a manager is morally (if not actually) responsible for the actions of those under him, the special requirements of foreign trade make this fact still more evident, and therefore, where possible, he should be given a freer hand than might be the case with one of the other departments. In a large office, too, it is essential to have more than one man with the requisite practical knowledge of the foreign countries, and care should be taken to see that the senior members of the foreign staff are equipped with approximately as good qualifications in the way of languages, etc., as the manager himself.

The Language Question.

For correspondence which must be conducted in a foreign language the services of a native are as a general rule to be preferred, for not only must a business letter be translated intelligently into the required language, but attention must also be paid to idiomatic expression especially in the case of sales letters, and a native is better qualified to carry this out than another. Moreover, his work will be the quicker, as he will not have to stop to think out words and phrases, consequently there will be an economy of time and money. As regards the languages to be used in the various countries of the universe, the native one is to be preferred above all others. When this is impossible, English sometimes makes a good second, though it must be remembered that the great psychological fact is to put the case before a prospective customer *in his own language*, for however well he may understand any other language, it is self-evident that he will feel best at ease when using his own.

“Secondary” Languages.

A few hints may here be given as to the best “secondary” languages to be used in certain countries where the native language is too difficult, and the only foreign languages you know are French and German. In Sweden, German is the

Spanish and Portuguese languages being akin to one another are practically identical, whereas really they are two distinct and separate languages with literatures of their own. It is therefore tactless to send a communication in Spanish to a firm in Portugal and *vice versa*, and many Portuguese consider it an insult to receive a



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Development Department, Cardiff

DELIVERING FROZEN MEAT TO TOP OF COLD STORES BY CRANE
(Queen Alexandra Dock, Cardiff)

best subsidiary language; in Norway and Denmark, English; in Russia and Poland, French; in the Baltic States and Finland, German; in the Balkans and Turkey, French or German; in Spain, Portugal, Italy, and South America, English or French; in Holland, English; in Belgium, French or English; in China and Japan, English. It is useful to remember, too, that German is the commercial language of the countries surrounding the Baltic Sea, and Italian that of the Adriatic and Mediterranean Seas. Another point of importance concerns the despatch of communications to the Iberian Peninsula and to South America. It is often imagined that the

communication in Spanish from a non-Spanish country. In South America, all the countries are Spanish-speaking except Brazil, where the language is Portuguese. As explained above, the best “subsidiary” language for these countries is English, or possibly French.

CHAPTER II

HOW TO SELL YOUR GOODS ABROAD

WITHOUT bringing too deeply into salesmanship the question of patriotism, we can truthfully

say that the welfare of the British Isles depends entirely on her foreign trade, and that the latter is the only real and permanent cure for unemployment. Most of the food we eat comes from abroad, and therefore unless we produce enough commodities to pay for it, it is only logical that we must starve. For it is quite clear that our imports can only be paid for by our exports, which constitute the ultimate wealth of the nation. It is therefore our duty to go out into the world and look for foreign trade in all quarters of the globe.

The Right Frame of Mind.

In starting out, we should first of all get ourselves into the right frame of mind and approach the whole question in a spirit of conciliation and friendship. It is no use allowing our national inclination to stand aloof—what the Elizabethans would have called our “splendid isolation”—impede our actions. Our overseas trade, which has been our tower of strength in the past, is bound to continue to be so in the future. The whole world in fact may be regarded as one body, and each of the countries as one of the limbs. Trouble in one of the limbs will react on the others and will impair the efficiency of the whole body. A commercial shock in one part of the world cannot but be felt in some adverse way in another part. Whether we like it or not, the *interdependency of the nations is there*, and will remain there. Therefore we should treat the foreign merchant as a friend and partner in our national prosperity; not as a person whose sole object in life is to swindle and cheat us, but as one who is also keen on getting his share of the spoils just the same as we are. Let us put ourselves in *his* position and calmly review the situation from *his* standpoint, through *his* eyes and by means of *his* mentality. This will make the position clear to us at once.

One very important point to remember is that we must not expect to find in others quite the same standard of probity and integrity as we should in our own fellow-countrymen. Nor shall we find the same cold reasoning and unbiased judgment which we might expect to find here, for both climate and conditions of life are entirely different abroad. The importance of climate on the fertility of the mind is very much underestimated, and in the writer's opinion should be given consideration in gauging a person's mentality. For example, most of our cold austerity and aloofness can be put down to our damp and foggy climate, which is apt to chill our bones and at times to cramp our energy. The other extreme is to be found in Spain and Italy, where the hot climate reacts on the body and saps up the inclination to work.

Present-day Opportunities.

In foreign business, as much as in any other, personal prejudice and caprice must be laid aside

in the interests of the business at hand. There is no doubt that much of the business success of the Americans is due to the fact that they are quite willing to sink all personal differences in order to complete a business deal. This is due to the conglomeration of races which makes up the United States. The broad sympathy which the fusion of many races into one (*e pluribus unum*) brings in its train, finds no better example than the quick way in which America reopened trade relations with Central Europe after the Armistice. No sooner was the ink on the paper dry, than scores of travellers came to Europe to pick up the trade which our war-fever would not allow us to touch—until it was well-nigh gone. The trade slump, too, has taught us a lesson, and if it has paved the way for closer trade relations in future with the rest of the world it will not have been in vain. Europe and the rest of the world to-day present as good opportunities for trade as ever they did, but grit and hard work are needed. The business pioneer of to-day has the same opportunities in the present world reconstruction as the buccaneers in the days of Queen Elizabeth, if he will but take his courage in both his hands.

To obtain foreign business the first essential is to get hold of the right salesmen, who should be men who have specialized quite as much in the peculiar intricacies of foreign trade as in their own particular trade or speciality. A good knowledge of the language, customs, and geography of the country he travels in, together with some acquaintance with the past history of its people, is just as essential to a modern salesman as it is for him to be perfectly *au fait* with what he has to sell. Both Germany and America have been wideawake to these facts. The main plank in Germany's pre-war success was to find out exactly what her customers in the various countries wanted, and to adjust her offers, cataloguing, etc., accordingly. She gave her customers what *they* wanted. Our policy, on the other hand, has been to issue catalogues *in English* of what in our opinion it was good for the customers to have. The quotations, conditions of payment, mode of delivery, etc., are as a rule all dictated by us, and the customer can please himself either by accepting our terms or by transferring his custom elsewhere. The effects of such a policy are, needless to say, not calculated to have the best effects on the prospective customer's mind, and in these days of competition the only thing to do is to drop these traditional methods altogether, and to put our pride in our pockets by finding out what our customers want and supplying those needs to the best of our ability.

Business Integrity Abroad.

A word may well be said here on the question of business integrity abroad. This has often been a thorn in the side of many business houses who

would otherwise have become big exporters. But the fact that other nations are not up to our own standard of business integrity cannot adequately be described as a reason for declining to trade with them; on the contrary, it is rather a test for the fine art of the salesman, whose sharp eye and experienced judgment will enable him to overcome any difficulties in that direction. It must be remembered, too, that business dishonesty has never yet won the palm of success, and every business man of standing, or firm which has made any progress at all, must somewhere have a sensitive point of honour which will respond to the human touch. This is one of the points which a good salesman looks for, especially in what may be described as a "tricky" customer.

CHAPTER III

HOW TO SELL YOUR GOODS ABROAD (contd.)

DURING the last two decades the art and science of salesmanship has undergone radical and fundamental changes. The two words *art* and *science* are used expressly because the deep intricacy of modern salesmanship calls for a knowledge of both these branches. It is only in recent years that the world has looked upon commerce as a distinct branch of higher learning, demanding powers of research quite equal to those of the advanced mathematician and scientist. On the Continent, commercial high schools have been in existence for some time, but it is only lately that such universities as London have established separate degrees in Commerce, thus setting the hall-mark of academic standing on what was formerly looked upon as merely a drab and money making pursuit. In the United States of America one or two universities have gone still further by establishing degrees in *Salesmanship* pure and simple. But in spite of all that economic science can teach us, practical salesmanship is utterly valueless if it does not take into its considerations that great uncertain factor which we call human nature, and it is the quality of worldliness which is so essential to a salesman engaged in foreign trade.

Sound Arguments Necessary.

In selling and advertising goods abroad the nature and temperament of each particular nation must be taken into consideration, and no hard and fast rule can be laid down as to what line of argument would be best adapted to all of them. Suffice it to say, that really sound and forceful arguments as opposed to mere bluff are far more likely to create an impression than mere empty sales talk, such as is unfortunately only too often heard in this country.

Spirit of Frankness.

The element of private influence and private friendship has a greater significance abroad than at home, and in judging this whole question regard must be paid to the different angles from which it is viewed here and abroad. Our national reserve and pride act as a kind of brake in determining the length to which we are prepared to go to obtain a man's custom, while abroad probably as much business is done "after hours" as during the regular business hours. One would not be far wrong in saying that as a general rule time and space are no bar to business either on the Continent of Europe or in America. A railway carriage, the waiting room of a station, a café—in fact anywhere and everywhere so long as there is a chance of mutual profit—business can be done. Little time is wasted in preliminary "sparring," an exchange of cards soon follows, and if necessary the conclusion of the business is formally carried out in the office of either party. The question of trusting a stranger is simplified by a mutual spirit of frankness and a wholesome lack of shyness in giving references, thus enabling business with new clients to be transacted with speed and efficiency. Business men of the highest standing have frequently found new openings in this way, consequently the new-comer to Europe need have no qualms on the point. Care should, however, be taken to verify the references which are given.

Quoting.

Particular attention should be paid to methods of quoting a foreign buyer. By far the simplest way for the seller is to quote f.o.r. (free on rail), or else f.o.b. (free on board) at the nearest port. He is thus saved the trouble of insuring the goods and also a possible loss due to fluctuations in freights. As soon as he obtains a clean bill of lading his liability for loss or damage is at an end. Foreign buyers who make frequent purchases in England often themselves prefer this to the c.i.f. (cost, insurance, and freight) quotation, as they are thus enabled to obtain the freight and insurance charges somewhat cheaper through collective shipment than if a single or isolated purchase were despatched separately. Other buyers, who are located in the interior of the Continent, sometimes like their quotations to be f.o.r. at some such port as Rotterdam, Antwerp, etc., where the great international forwarding houses have their branches or agents who can readily take over and despatch the goods to their ultimate destination in the interior. This plan is of great value to both parties, as it enables them to effect the change of ownership half-way, as it were.

Charges for Unloading, Etc.

One point must not be forgotten. In computing the cost of a quotation, say, f.o.b. or f.o.r.

Antwerp, allowance must be made both for the charges of unloading the goods on the quayside at Antwerp, and for those of transhipping them or putting them on rail as the case may be. This "allowance," too, represents the precise difference between a quotation given as c.i.f. Antwerp and one given as f.o.b. Antwerp. In the former case the consignor's liability ceases as soon as his goods have been discharged from the steamer at Antwerp, while in the latter he is responsible for the transhipment as well. Quotations such as f.o.r. Antwerp are frequently asked for by such inland countries as Switzerland, which has definite arrangements as to railway facilities with the various States through whose territories the goods will pass in transit. Another important country without a seaboard, Czecho-Slovakia, has, under the Treaty of Versailles, been granted harbour facilities at Hamburg with the necessary portion of docks and warehouses and the right of transit across Germany by rail or by water along the Elbe. Thus a buyer in Prague would be best accommodated by a quotation f.o.b. or f.o.r. Hamburg, and a buyer in Poland (which has been granted similar rights in the new Free State of Dantzig) by a quotation f.o.r. Dantzig.

The C.I.F. Quotation Preferred.

The usual procedure, however, when goods are consigned to a port which is in the country of destination, is to quote them c.i.f. This quotation is the one which proved experience has shown to be the most satisfactory both from the exporter's and from the importer's point of view, and is certainly the one best appreciated by the importer, i.e. the buyer, who after all is entitled to the greater consideration. The problem of insuring the goods for shipment overseas is sometimes difficult for a beginner, but an "all-risks" policy obtained through an insurance broker from any of the old-established companies may be taken as being sufficient to cover most exporters' requirements. The details of marine insurance have been fully dealt with in Section 36, and any of the numerous insurance brokers who abound in all our large cities will be willing to give an intending exporter all details as to his requirements.

Since the war, owing to the rise in marine insurance rates, many exporters have been in the habit of quoting "cost and freight" only, leaving the insurance to be effected by the importer in his own country. This arrangement often enables a considerable saving to be effected especially in the risk of theft and pilferage, for which the British companies often quote an extremely high rate, and which can therefore frequently be insured against at a much lower rate in the consignee's own country. But this is necessarily a matter which should be unequivocally arranged

in good time beforehand with the consignee or importer, as any doubt or mistake on the point might easily involve both parties in considerable financial loss—the one through the loss of the value of the goods, the other through the loss of his buyer's future custom. Hence the vital necessity of paying proper attention to the matter at the right time.

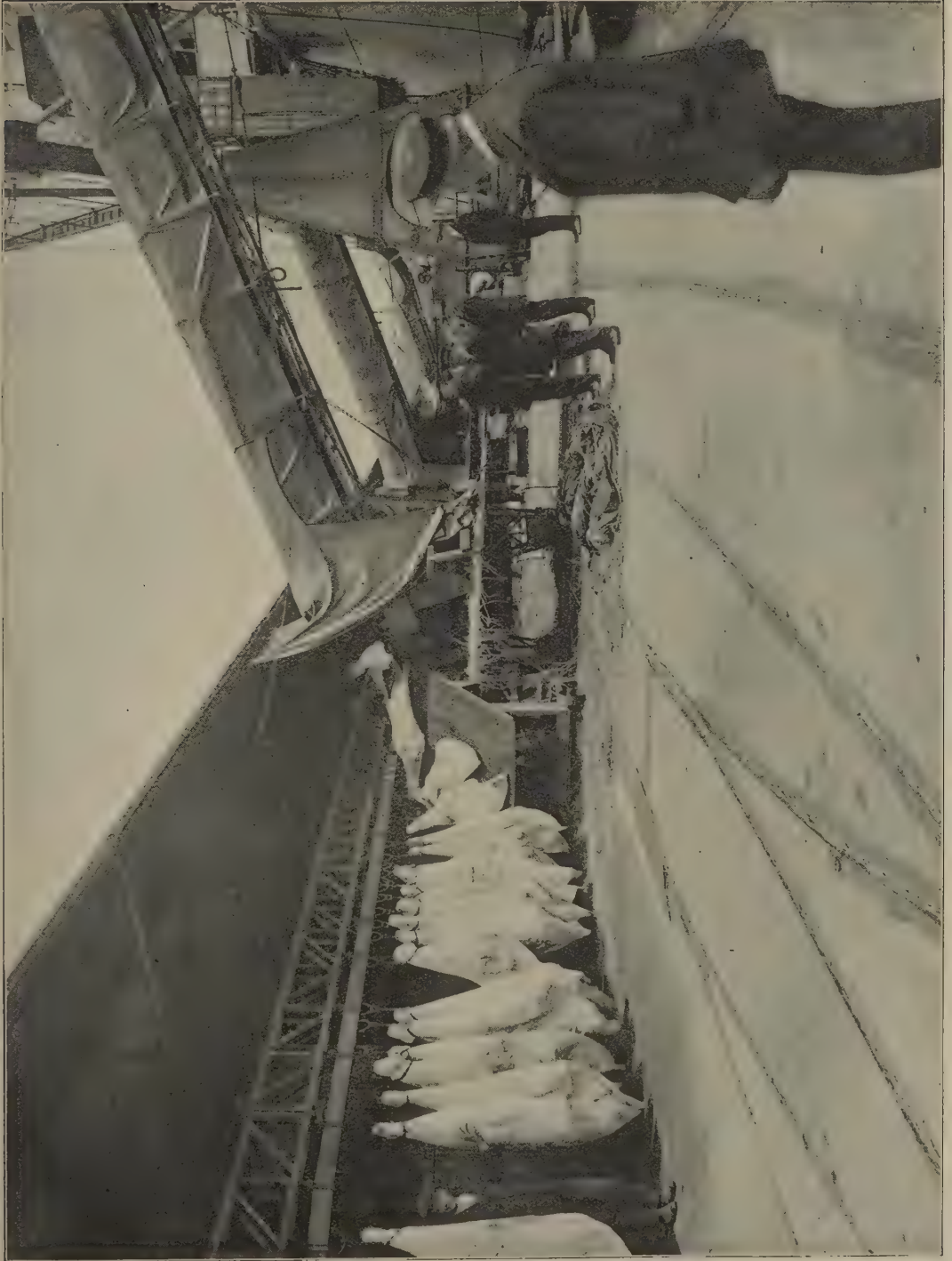
CHAPTER IV

HOW TO SELECT YOUR FOREIGN AGENTS

In the appointment of foreign agents, great stress must be laid on the advantages to be derived from exclusive agencies. For one thing the agent has a greater stimulus to work up a connection, and he will be far more inclined to devote his energy to the business of his principal than if more than one agent is "working" the territory. Also, if there are two or more agents working the territory and they both call on the same customer, there is apt to be considerable dispute when the business materializes as to who is to get the commission. As the agent usually works on a commission basis only, he cannot and will not as a general rule devote his whole time to the business of one principal, and there can be no objection to his taking non-competitive additional lines. Sometimes he may even take competitive lines where the territory is exceptionally large, and where one principal is unable to supply all the goods needed for that territory.

The Personal Interview.

Where possible, the agent should always be appointed after a *personal* interview. There is no need to point out at great length the advantages in ordinary everyday business life of the *personal* element. This is especially the case in the appointment of foreign agents. More satisfaction can be obtained by half an hour or an hour's talk than by reams of correspondence. In the matter of size, a medium-sized concern representing a few first-class exporters is the best choice, chiefly because such concerns must, as it were, "work for their living." They are compelled by circumstances to devote the proper attention requisite to their work, and are usually very keen on "getting on." They are thus very useful to the beginner, who, if he is hesitating whether to take an Englishman or a native, should decide in favour of the latter. This is not from any unpatriotic motive, but simply as a matter of business expediency. They are as a rule better acquainted with the importers in the country concerned, and from the selling point of view more



DISCHARGING MEAT BY AUTOMATIC CONVEYORS

adaptable to the needs of their own country. Where the expense can be afforded by the beginner help should be given to the agent by means of advertising, as this always helps to push new goods, especially new trade-marks and commodity articles.

Arranging the Details.

After getting into touch with the agent—usually by means of an advertisement inserted in one of the chief London or Continental newspapers—the principal should take care to verify the references given to him, and to be quite clear as to the exact details of the terms arranged, such as rate of commission, extent of the territory, etc. Then, after a personal interview, where this can be arranged, he should confirm by letter addressed to the agent the exact details arranged. It should be remembered that this letter is equivalent to a legal document, and can be enforced at law. It should therefore specify the exact territory allotted to the agent, and contain stipulations regarding commission on the actual business transacted *and paid for*, and a clause should be inserted regarding postages, cables, etc., which are usually paid for by the principal. In the interests of the principal the agreement should be so worded that it is made quite clear that commission is only payable on the *actual cash received* by the principal, otherwise, according to English law, he will be liable to pay commission on all business transacted, whether this is eventually paid for or not. Another safeguarding clause is the one which makes all orders booked by the agent subject to confirmation by the principal.

Del Credere Commission.

In general, the agreement must be fair to both parties if it has to have any permanency, and where business is on a large scale it is sometimes possible for the exporter, by giving a small additional commission, to obtain from the agent a guarantee of payment by the importer. This additional commission is called a *Del Credere* commission. Of course, where a *del credere* is paid, care should be taken to see that the agent has substantial assets behind him, so that in case there is any claim upon him he will be in a position to pay up. As a general rule, the European commission agent has a higher business standing abroad than he has in this country. Sometimes he acts as a merchant as well as a broker, buying for his own account in "safe" transactions and acting for a principal in others. Quite often, too, he may combine a wholesale with a retail trade. In such cases he, of course, charges the proper retail price to the retailers, otherwise he would be cutting out his own as well as other people's wholesale business.

CHAPTER V

HOW TO ADVERTISE AND CREATE "GOODWILL" ABROAD

It is quite impossible to lay down hard and fast laws for the governance of human nature, nor can we make set rules for such a wide subject as "Goodwill," but we can with some degree of certainty examine and state certain principles which, if followed, will help to increase its potential value. The intrinsic value of any business is what it will bring in to its proprietors, and to make a concern a paying one, it must have proper channels through which its output may flow unrestricted into the hands of its customers. All the channels through which our trade and commerce flow have had at one time or another to be dug out of the soil or hewed out of the rocks of competition and opposition, just in the same way as our canals and other artificial waterways.

Real Salesmanship.

The old school of salesmanship made turnover the main criterion of its intrinsic value, but the fact that this turnover was not always maintained at its full height has made them search for the causes of it, and thus to make regularity of business rather than mere turnover the main consideration. For what will it profit a man if by cunning and stupid salesmanship he gain a new customer to-day, if he is to lose him again to-morrow after the latter has discovered that fact? Many a business man can make one deal with a new customer, but real salesmanship comes in in the keeping of that customer, and in making the first deal the forerunner of a regular flow of orders. A business built up on these lines has the greatest potential goodwill. To get this goodwill abroad requires greater effort and a more extensive knowledge of business methods than is the case at home.

Knowledge of People.

One of the greatest essentials is a psychological knowledge of the peoples concerned. As a rule on the Continent very few orders are taken over the telephone; nearly all of them are made in writing, and this has tended to make the people more exact and minute than is the case over here. Consequently, a connection is far more likely to be a permanent one if this minuteness is reciprocated by us than if the small details are either dealt with haphazardly or glossed over altogether. It is the small things in life which cause the most annoyance and irritation, and in business life, therefore, the small—so-called "unimportant"—details need the most watching, especially on the Continent. It is not for us to decide here which of the two temperaments is the best for business—our national phlegm and nonchalance, or the

dotting of the last *i* and crossing of the last *t* which is such a common feature with many European merchants. The main thing to bear in mind is that we have to take people in life as we find them, and that if we wish to do business with them and to ingratiate ourselves with them, we must do what we can to meet them. It is absolutely useless attempting to change their nature and temperament, just in the same way as it would be futile for them to try and make us drop our national conservatism.

Reluctance to Advertise Abroad.

It seems a strange thing that while British firms are willing to spend thousands a year in advertising in the United Kingdom or the Dominions, most of them are reluctant to invest a penny in advertising abroad. Whether it is due to national conservatism or lack of belief in its ability to yield a return on the money so spent, we do not know, but the fact remains that there is a general reluctance on the part of British merchants and manufacturers to advertise their goods abroad in anything like a sufficiently wide manner. Advertisements published abroad, just like advertisements published at home, are essentially a sentimental appeal to the buyer, therefore they must be phrased in the popular idiomatic vernacular of the country in question. This task, however, need be no barrier to the enterprising merchant, for the various advertising agencies abroad are all able, not only to translate the desired advertisement into most European languages, but, what is still more important, to recast it into the proper form, so that it will appeal to the intended class of buyer in exactly the same way as if it had been originally drafted by the native.

The Use of the Cinema.

The cinema, too, is often used as a medium for advertising abroad. By this we do not merely mean the display of a few slides, but proper films running for fifteen or twenty minutes, and showing in actual practice the various qualities and advantages of the material advertised. This method, which is not unknown in this country, works extremely well when such things as motor-cars have to be advertised, and the same applies equally to any other mechanical contrivance. It is easy to see that a possible customer will be in a better position to judge as to the utility of an article after he has seen it working under varying conditions. The idea of using the screen as a medium for advertising is, of course, American, and it has been brought to a very high state of efficiency there.

Illuminated Signs.

Another publicity method which is highly in favour on the Continent is electric light illumination at night. This method, too, has its origin

in the States, the "Home of Advertising," and by means of revolving wheels, or by the constant extinguishing and re-lighting of the lights, the man in the street is forced, whether he wants to or not, to look up at the sudden blaze of light, and its equally sudden disappearance.

It is here that the sense of curiosity works. Give a man a solution of three-quarters of a problem and he will instinctively try and find the fourth part. Give him the complete solution straight away, and he immediately ceases to interest himself in it. A sound knowledge of practical psychology is the shortest cut to good salesmanship, and without it the art of selling would develop into little else than one long and laborious lane of drudgery.

CHAPTER VI

THE ART OF FOREIGN CORRESPONDENCE

THE great importance of paying proper attention to commercial correspondence cannot be over-rated. Business letters are to the world of commerce what aeroplanes are to an army in the field—the eyes of the service. But they are more than this, for not only are letters written to *obtain* information, but more often their purpose is to impart it as well. The information which a letter can convey is two-fold in character. In the first place, there is the knowledge which the writer wishes to give to the reader, i.e. the substance or contents of the letter, and secondly, there is the *secret* knowledge about himself which the writer either consciously or unconsciously imparts to the reader, and from which the reader is to supplement the information and complete in his own mind the picture he has already obtained from the contents of the letter. It is with this sub-conscious information, or reading between the lines, that we are chiefly concerned at the moment.

Need for Clearness.

In foreign correspondence as in foreign salesmanship exactitude and preciseness are two great qualities, attention to which will well repay the trouble spent. The European merchant likes things to be stated as clearly and as fully as possible. If there is to be any erring it should be on the side of verbosity rather than brevity. What we should consider as a verbose letter is nothing else than an effort on the part of the writer to explain things exactly as they appear to him, and so to save the reader the trouble of having to fill in details from his own imagination. Our own point of view is to give the reader merely the necessary details and to flatter his intelligence by allowing him to assume the less important details.

A British merchant who received a letter full of all kinds of more or less trivial instructions would consider it an insult to his intelligence and common sense, but the majority of European merchants, even where they are already in possession of the necessary information, like to have the details repeated to them, so as to be doubly sure that everything will be in apple-pie order, and would consider an over-detailed letter in no way out of form.

Brevity may be the soul of wit, but it is not *what* you say in life that matters but *how* you say it. A letter sent to a customer in a neighbouring town starting "Yours of the 10th to hand with contents duly noted," would be taken at its face value. But the same letter sent abroad might be taken to mean that the writer was so pre-occupied with other matters that he had not even the time to spare to send his customer a proper, courteous, business letter. The result is a dissatisfied and irritable customer. Everyone who has at any time done business with any of the Latin countries of Europe or South America is familiar with the elaborate peroration which marks the termination of their letters, whether these are written in their own language or ours.

The old mediæval sense of chivalry which is so much in evidence in all Romance countries, seems to have stamped its hall-mark on their business correspondence. The British exporter need not, however, think that he must colour his business correspondence with the flowery eloquence of romantic chivalry in order to win customers abroad, but he would be well advised to take into consideration the nature and character of his foreign customers, and frame the language and purpose of his letter accordingly. He should let his customer see in the plainest manner possible that he is at pains to understand his position and difficulties, and, to put the matter in a nutshell, play up to his weaknesses. These remarks, of course, apply mainly to letters. The advent of dearer postage after the war, however, has caused traders to have more recourse to postcards than formerly. Thus the postcard has now to take the place of the letter, and, as such, is gradually taking upon itself more and more the various forms of a letter. Instead of the abrupt commencement and finish which is usual when the postcard is merely used as an auxiliary we now find in many cases a complete and concise "letter" written on a postcard. In a large business the amount thus saved may come to quite a considerable sum.

The Air Mails.

Since the Armistice a new way of carrying express mails has come into existence, namely, the Air Post. This method has now taken the place of the former express letter which travels by ordinary train with the other mails, but is delivered by special messenger from head office, frequently some

time after the corresponding ordinary mail has been delivered by the postman! This air post had already made its appearance as a luxurious novelty before the war, but with the rapid development of flying during the war it has come to be looked upon as the proper medium for the despatch of express mails. The air mail deserves far more support than it has so far received, and exporters are strongly advised to use this method—where it is available—for the despatch of their urgent correspondence. Air mails are now being extended right across Central Europe to Eastern and Southern Europe, and the cost is not much more than that of an ordinary letter, whereas the saving in time is considerable.

CHAPTER VII

HINTS ON IMPORTING GOODS FROM ABROAD

SPEAKING in broad terms, the procedure in the import trade is pretty much the same as in the export trade, with the exception that the goods are bought and paid for instead of being sold and turned into cash. Agencies of firms abroad are best obtained by advertising in the principal newspapers of the town or country concerned. Frequently, too, advertisements appear in the principal London and provincial papers from firms abroad seeking agents in the United Kingdom. But if the importer would like to have the assistance of a Britisher on the spot, he cannot do better than apply to the British Consul-General at the capital or chief port of the country in question. As a rule such officials are only too pleased to justify their existence by assisting British firms needing advice or help in any way, at any rate that is one of their many important duties, and experience abroad shows that they are in nearly every case zealous and hard-working officials, who have often to perform unpleasant duties without a murmur and with a smile on their faces. Another important official is the commercial secretary attached to most of the British Embassies and Legations abroad. He is an official holding diplomatic rank, and has charge of the records of trade relations between Great Britain and the country concerned. He renders assistance to the Consuls, who apply to him for help where they cannot from their own records impart the desired information to an enquirer. Therefore in urgent cases it is always best for the enquirer to apply to the commercial secretary as well as to the Consul.

Continental Banking.

A word should here be said on Continental banking. What strikes the Englishman most is the large number of private banks still existing

all over the Continent. These private banks are, in the majority of cases, far more liberal towards their clients than the big joint-stock ones, which is quite natural, as the former wish to attract all the business they can get. Moreover, both the private and the joint-stock banks often act as merchants and commission agents as well as bankers. Hence in dealing with Continental banks, especially the private ones, the British

trader with a sound reputation need have no fear that he may have to refuse business for lack of financial facilities.

Though the question of interference by the banks in the trade of the country is a thorny one, there is no doubt that it has its advantages as well as its disadvantages. While the British merchant as a rule resents interference in any shape or form, the Continental merchant looks



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THE CORRESPONDENCE DEPARTMENT OF A SHIPPING OFFICE

exporter should be on his guard not to give away more information about his business than is absolutely necessary, as he may find to his chagrin that he has given it to one who is not only his banker but also a serious trade competitor. But the real advantages of the private banker are clearly seen in transactions which contain some element of risk, that is where the amount borrowed is large in proportion to the security given for it. There is no doubt, too, that some of them are inclined to grant the trader accommodation on far easier terms than is the case here. They are willing to take shares in and finance industrial concerns both large and small, and the honest

trader with a sound reputation need have no fear that he may have to refuse business for lack of financial facilities. Moreover, there are many trade banks and financial houses abroad which concern themselves with nothing else than the financing of industrial concerns standing in need of long credit.

The Post Cheque System.

It remains, in conclusion, to deal briefly with the post cheque and giro system as it exists to-day in most European countries. Although we have for years had a Post Office Savings Bank we have as yet no Post Office Bank with proper cheque books and postal cheque accounts. If I have a

postal cheque account and wish to send a remittance to someone else who also holds an account, I can simply fill in a cheque and hand it in at any post office or send it by the ordinary mail, and free of all charges the amount is transferred from my account to his. In cases where the payee has no postal cheque account, a small charge equivalent to our poundage on postal orders is made, and the money is paid out by a special "money postman" at the address of the payee. This "money postman" is unknown in England. His duties are to go round from house to house in exactly the same way as the ordinary postman and pay out sums of money on postal cheques and money orders.

Money orders and postal orders abroad have several advantages over those at home. In the first place the poundage is proportionately smaller, and the payee is saved the trouble of cashing the order as the money is brought to his home. Then again, in the case of both order and cheque, the sender is allowed to write a message in a space

specially provided on the voucher section without extra charge. The payee keeps the voucher for future reference and returns the rest of the order duly receipted to the postman. Several accounts, too, can be paid through the post on one cheque by merely writing the names of the payees on the back thereof, and the proper amounts will in due course be credited to the respective people to whom they are due.

Most European countries allow foreigners to hold postal cheque accounts, but this fact seems to be little known in England, and many people are puzzled when they receive a letter with a request to remit the amount due to post cheque account number so-and-so. In all cases where an account has been credited with a certain amount, the payee is always notified by the postal authorities to that effect, and if the sender should lose his receipt for the amount paid, he can always obtain proof of payment at any time, usually up to five years, as all such transactions are officially recorded in the State archives.

SECTION 38

Foreign Exchange and the Financing of Foreign Trade

By C. R. BROWNING, *Certificated Associate of the Institute of Bankers, with Distinction in Foreign Exchange*

CHAPTER I

THE BASIS OF FOREIGN EXCHANGE

THE subject of foreign exchange is one of the most unfortunate in the commercial curriculum—its name tends to make it a spectre to frighten the sanest of business men and the most assiduous of students. Commercial men are wont (mistakenly) to regard professional dealers in foreign exchange as top-hatted speculators who work themselves up to fever-heat in the cool backwaters of Lombard Street and Cornhill. Even among bank-men whose daily duties lie in other channels, the subject is considered somewhat "high-brow."

The intention of this present section is not to give the whole thing "in a nutshell," but rather to show that this branch of Economics, commonly called "Foreign Exchange," is at least as vitally important as any other commercial study, since our nation is almost entirely dependent on foreign countries for its supplies of food and raw materials. The writer's aim, therefore, is to indicate to non-professional readers the extent of the subject, so that men of business to whom the study is new will see exactly its scope and will be in a position to approach with understanding the practical issues with which they may be confronted.

What is Foreign Exchange?

Foreign exchange is the term applied to the system by which the individuals composing the nations of the world settle international obligations without the trouble, risk, and expense of sending gold and silver from country to country. All these debts are *represented* by pieces of paper, and the normal machinery for liquidating the debts is supplied by bankers. If, for example, you in London wish to settle a debt with a client in Liverpool, the last thing you would do is to send coin. You would post him a cheque, postal order, or money order, or you would instruct your banker to pay for your account. The paper by which your debt is settled *represents* your debt,

and your creditor is completely satisfied although not a coin has been disturbed.

If you decide to pay by cheque, you will be aware that your creditor need not himself present the cheque for payment; he can pass it on to one of his own creditors, and it is something of this sort that happens in foreign exchange. Various documents are created to represent debts, and these pieces of paper have a value in a market consisting of bankers and brokers who specialize in purchasing, and then collecting these debts through agents, thus effecting settlement of international obligations.

Our subject consists, therefore, of an examination of the operations connected with the creation of documents representing debts, the principles which underlie their use, the persons who deal in them, and the methods of handling them. We shall discuss the basis on which their price is determined, and the means whereby the mutual indebtedness of nations is paid off and cancelled.

The Function of the Bill of Exchange.

Now the bedrock of all foreign exchange dealing is the bill of exchange, which as all business men know is an instrument of credit which represents a debt, and in this capacity can be transferred to a third party. It has a value and can be sold. As is the case with all commercial functions, the appreciation of the value of bills of exchange has fallen to a specialist section of the community—known as "bankers."

The banker who deals in international debts constitutes himself a clearing house; he buys from creditors who wish to realize their credits, and sells to debtors who are anxious to remit to settle their obligations. He does not actually hand over the same bits of paper, but he remits his purchases to his agents in other countries to be collected for his account, and against these amounts he issues drafts on his agents, or otherwise places funds at the disposal of debtors in his own country. These debtors pay the banker, and receive from him documents which will entitle their creditors to receive from the banker's local agents the amounts due to them.

The Elements of International Indebtedness.

The main source of indebtedness between nations is foreign trade. Between all commercial countries there is a constant flow of *goods*; a constant exchange of various *services* (such as shipping, insurance, and banking); and a constant ebb and flow of money for purposes of *investment*. All these exchanges of money's worth give rise to debits and credits, and it follows that the demand for and supply of representative money to settle all this indebtedness will rarely balance. It has been seen already that each piece of paper capable of discharging a debt has a market value, and it is thus easy to realize that this market value will rise and fall with the fluctuations of supply and demand.

CHAPTER II

RATES OF EXCHANGE

THE fact that each nation has its own particular currency leads us to reflect that dealing in foreign debts in their various forms involves the translation of the money of one country into that of some other country. In all contracts of purchase and sale so much money is given for one (or some recognized standard number) of the article desired. Eggs, for instance, may be 3s. for one dozen, but vegetable marrows are bought singly; and in handling foreign currencies, professionals have adopted universally recognized standards.

In New York so many dollars are given for £1, or 100 Dutch florins, or 100 Spanish pesetas, and the number of dollars given in each case is called the *Rate of Exchange* with the other country concerned—Great Britain, Holland, or Spain, and so on.

Mint Par, the Basis of Exchange Rates.

Now let us consider for a moment on what this rate of exchange is based. We saw in the previous chapter that foreign debts are settled by *representative* money; that is to say, bits of paper which are substitutes for metallic money and utilized to avoid transfers of coin. The debts are payable *in coin*, and hence the basis of the conversion of foreign currencies is *coin*.

The standard coins of all countries are made according to a definite legal specification, which in our country is comprised in the Coinage Acts. Such laws in all countries state definitely the statutory weight and fineness of the coinage. A comparison of the values of the standard coins of two countries will give, therefore, the basis of their exchange, and if we calculate the proportions of the constituents of our own sovereign and those of the United States gold dollar, we find that one

sovereign is worth 4.8665 dollars. Similarly, one sovereign is worth intrinsically 25.2215 francs.

This legal ratio is called the *Mint Par of Exchange*, or colloquially, the "*Par*." This, then, is the basis of all transactions between countries using the same standard metal (gold or silver). It should be noted that there can be no Mint Par between Great Britain and China or Mexico, because the last-named countries have a *silver* standard, and the ratio between gold and silver cannot be definitely fixed. The rate of exchange varies according to the market price of silver as expressed in gold (and in Mexico and China, the market price of gold as expressed in silver).

Published Rates.

Rates of exchange are published daily in all the leading newspapers, and form a component part of what is known as the "*Money Article*." The methods of publication differ; in *The Times* and the *Manchester Guardian* the rates show the extreme range of rates in London during the preceding business day, but in the *Morning Post* the rates given are those at which business closed on the previous working-day. As a result of the prestige enjoyed by *The Times* its published rates are accepted as official, and are judicially recognized both at home and abroad.

We will examine a list taken from *The Times*. We notice the currencies quoted, the method of quoting, the pars of exchange, and the quotations of the two preceding days (for comparison). These quotations are the prices at which bankers were prepared to issue cheques in foreign currencies, and the rates at which they instructed their agents by telegraph to pay parties abroad for account of English debtors ("*Telegraphic Transfers*" or "*T.T.'s*"). Cheque rates also are the rates at which "*Mail Transfers*" are effected (orders sent by mail to an agent to pay a third party for account of an English debtor) since the minimum time which elapses before payment is the same as in the case of a cheque—the time taken for the delivery of a mail.

Now all these forms of payment are the off-spring of the bill of exchange. Theoretically a T.T. is a bill transformed into a cable. A mail transfer performs the work of a bill, and we can include therefore all bits of paper which effect a settlement of foreign debts under the generic term of bills of exchange; and foreign exchange is thus the system of dealing in bills of exchange.

Movements in Rates.

The "*Money Article*" contains also some comment on the movements in exchange rates. The City Editor tells us perhaps that "*Madrid rose 2 c. to 28.76½*." From this cryptograph we learn that as compared with the preceding business day the number of pesetas obtainable in London

in exchange for £1 increased from 28 pesetas 74½ centimos to 28 pesetas 76½ centimos. He might have said instead that sterling improved or the peseta depreciated, or that the peseta rate moved in favour of this country. Everybody is familiar nowadays with the phrase "Relapse in the Mark," which means that sterling purchased still more German marks.

Gold-points, the Normal Limits of Fluctuations.

It has been shown already that the prices of bills vary according to the relation of supply to demand. As remittances become dearer—owing to a drop in supply or an increased number of buyers—a point will gradually be reached at which it will become cheaper for a debtor to send gold than any other form of remittance. A debtor who decides on this course has to buy the gold, have it packed, insured, shipped (and carted to and from ship) and after allowing for all these charges a certain equivalent rate of exchange is reached called the *Gold-point*.

Self-interest will decide whether or not such remittances will be economical, and in theory, therefore, rates of exchange will be confined to two limits, which are the rates at which gold enters and leaves a country. The cost of the gold is the Mint Par, and therefore the whole range of normal fluctuations is *twice the cost of sending bullion*.

By way of illustration, we will assume that a merchant in France wishes to export gold to England. He would draw notes from his banker, and present them to the Bank of France for payment in gold. For every sovereign he owes his English creditor he will have to draw 25.2215 francs in gold, and as the cost of transmission is about ten centimes for each £, the French debtor will be paying at the rate of 25.3215, which is thus the outgoing gold-point from France. Similarly, gold imported from England would realize in France 25.2215 francs less ten centimes per £, or 25.1215 francs, which is the incoming gold-point to France from England. Consequently, the normal rates of exchange between England and France fluctuate between 25.3215 and 25.1215—a range of twenty centimes only.

Unfortunately, these gold-points are theoretical, and depend on unrestricted exports of gold. Foreign governments, however, regard gold as a war reserve and are not always prepared to allow gold to leave for abroad. This is the case with France and Germany, and in these circumstances the rates may rise above the gold-points without causing a corresponding movement in bullion, for debtors must pay, and until the supply of remittances overtakes the demand, the rate will go on rising.

Classification of Fluctuations in Exchange Rates.

We have satisfied ourselves that the main cause of exchange fluctuations is the relation between the supply of, and the demand for, remittances to foreign countries, but it is possible to classify in three well-defined groups the elements which go to make up the demand and supply. Roughly speaking, these three groups correspond to the settlements incidental to the constant exchange of *Goods, Services, and Securities*. Some writers call these: *Trade influences, Banking influences, and Stock Exchange influences*, and the point to remember is that every transaction with a foreign country gives rise to an exchange operation, and contributes to the state of the rates of exchange.

1. Under *Trade Influences* we may include all operations in respect of exchanges of goods—food supplies, raw materials, and manufactured articles.

2. *Banking Influences* comprise the many and varied payments for services rendered, and these are described as banking influences, as the banks figure rather more prominently in the settlement than they do in the other groups. The services may contribute to the movement of merchandise (payments for freight and insurance), or to the facilitating of travel; they may refer to remittances by emigrants, or bankers' own commissions, and the settlement of arbitrage operations (purchases and sales of currency in foreign centres). Bankers are always prepared to snatch profits from momentary differences in rates in different centres, and such operations tend to keep rates level. If a rate in one centre improves or depreciates, the quotation in neighbouring centres moves in sympathy.

3. Under the group of *Stock Exchange Influences* are classified the bills drawn for purchases and sales of securities, whether for investment or for speculation. The group includes also the remittances of loans raised in foreign markets by governments, railways, or commercial undertakings.

Many stocks are "international," that is to say, they are actively dealt in on all stock exchanges, and the slightest variation in price in one country might mean a stream of orders to buy or sell—and corresponding demands for remittances to settle the contracts.

Interest on foreign investments is a considerable item; payments have to be remitted to the holders of the bonds, or the latter will draw off the sums due by remitting coupons for collection.

The elements of demand and supply, thus grouped under three heads, reflect the *relative indebtedness* of nations, and the rate of exchange will favour the country that is receiving money on balance (making due allowance for the influences enumerated in the following group).

4. *Other Influences*. The situation of the foreign exchanges at the present time requires some

mention of what usually are called the "extraordinary influences" on rates of exchange. The most important influence outside the three main groups is without doubt the state of a nation's currency.

Changes in currency affect the basis of all values, and dealings at once respond. When a currency depreciates either through an over-issue of inconvertible notes (i.e. not exchangeable for gold), or if the metallic portion becomes debased or worn, the nominal rate of exchange is quoted in terms of the depreciated currency, instead of in terms of full-weight coins. Prices also are expressed in terms of the depreciated currency; that is to say, they rise, and moreover become liable to serious and irregular fluctuations. The exchange is *always against* a country which has a depreciated currency.

The production of the precious metals affects the foreign exchanges. When shipped as merchandise, consignments of gold and silver are "trade influences"; but if the metal is put into circulation as money, prices tend to rise. This rise checks exports and stimulates imports, and thus raises exchange rates until some of the surplus metal is drawn off.

Commercial, financial, and political crises are of vital moment, tending as they do to a sudden and general liquidation of accounts; but the effect of the *payment of war indemnities* is minimized by spreading the operations over a considerable period of time.

"Invisible Imports and Exports."

We have seen that the rate of exchange is determined by relative indebtedness, and that the basis of this indebtedness is foreign trade. A study of the statistics of our imports and exports (published by the Board of Trade) will show that we receive from abroad more than we export; in other words, on this account we have to pay away more than we receive.

But the Board of Trade Returns indicate only a portion of our national income and expenditure. No figures are available to show our income from investments, or our earnings for services rendered; and in the aggregate these more than make up for the adverse balance of trade and keep the exchanges from being permanently against us, thus earning the name of "invisible imports and exports."

Illustrations of Fluctuations.

Before we proceed to discuss the normal methods of correcting adverse exchanges, it would be interesting to test our classification of movements in rates by quoting recently-recorded illustrations, which are included here by the courtesy of the Editors of the journals named—

(a) Groups I and II—

Movements of the foreign exchanges during the (coal) strike will be of widespread, if painful, interest. Coal exports have ceased, other exports will be greatly restricted, the adverse balance of trade will be increased, and this will make the exchanges less favourable. It means that the pound sterling will buy less abroad, and that the cost of imported necessities will correspondingly go up.

We shall not have long to wait for unwelcome evidence of the relation between smaller exports and the exchanges, for one of the earliest consequences of a coal stoppage is bound to be a partial paralysis of steam navigation.—(*The Daily Mail*, March, 1921.)

(b) Groups I and III—

After being at a discount (see Note) in New York since 1915, the Canadian dollar has at last got back to an equal footing. A leading cause of the recent movement towards equilibrium has been the reduction of exports from the United States as a consequence of the coal strike. Canada at this season is usually busy laying in her winter store of coal, and on the present occasion, being unable to obtain adequate supplies from the United States, has been taking coal from Great Britain. The approach of the Canadian crop-moving season has also been a factor in the exchange, and in addition, the proposal to float a Canadian loan in New York for \$475,000,000 has probably been an influence.—(*The Times*, August, 1922.)

(NOTE.—"At a discount" means less valuable than the U.S.A. dollar which is of the same weight and fineness. Correspondingly in Montreal, the U.S.A. dollar would be "at a premium.")

(c) Special Influences (Political)—

Greek money has suffered a heavy fall in value as a result of the rout of the Greek Army in Asia Minor. During the (Great) War, owing to the demand for Greek currency to pay our Army in Macedonia, the drachma was one of the currencies that stood at a premium in terms of sterling. That is to say, the £ sterling bought a little less than 25 drachmae.

This state of affairs lasted until December, 1919, when the value of the drachma fell to 25.75 to the £ (par is 25.2215). By December, 1920, it had fallen to 49.50 to the £, and by December, 1921, to 103 to the £. Last month the value fluctuated between 140½ and 155 to the £. As a result of the defeat by the Turks there was a sharp fall last week, business being done on Wednesday at 177 to the £.—(*The Daily Mail*, September, 1922.)

(d) Group I—

For some time after the war ended, sterling was below par in most countries, mainly as the result of the heavy imports and greatly reduced exports of the United Kingdom brought about by the concentration of our factories on the output of munitions, and the difficulties of the subsequent reversion to peace-time activities.—(*The Times* Trade Supplement, September, 1922.)

(e) Political and Groups I and III—

The Near East situation was an adverse influence on the Allied exchanges, amongst which a further sharp advance in the Italian rate was conspicuous. Doubtless the payment of the five millions sterling credits last month has assisted the adverse movement. It also seems probable that imports which have been deferred in the hope of a more favourable exchange are now taking place.—(*The Times*, September, 1922.)

(f) Political—

The breakdown in the Belgian negotiations with Germany was responsible for early weakness yesterday in the mark, and also in the franc, and the lira.—(*The Daily Mail*, September, 1922.)

(g) Group III—

By the limitation it places on Brazil's power to buy from abroad the present low value (of the milreis) is a severe handicap to a revival of her import trade, and it is also of very real concern to many British undertakings which derive their revenues in Brazilian paper currency and have to pay interest and dividends in sterling. One immediate cause of the latest decline is understood to be the large sterling payments which the Brazilian Government has to make during the present month; in the last few days the

York buying, and the final rate of \$4.43 showed a fall of only $\frac{1}{2}$ c. on the day. The French, Belgian, Italian, and German exchanges also weakened in sympathy with sterling, but the recovery in their case was even more marked than in that of sterling, the closing quotations showing a slight improvement in value. With the import trade from America seasonably more active, it would cause little surprise if the dollar value of sterling tended to fall slightly in the next few weeks. It is, however, desirable to point out that Government purchases of dollars ceased some time ago, the Government having fully provided itself with the



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Bank of Brazil has been an eager borrower of sterling at high rates. But the broad underlying reason for Brazil's economic troubles, as reflected in the exchange, is the impoverished state of her European customers. The new obstacle to trade with the United States that is set up by the Fordney tariff is also a factor of importance.—(*The Times*,⁹ September, 1922.)

(h) Groups I and III—

The chief event in the City yesterday was the rather sharp but temporary fall which occurred in the American exchange for sterling. There was considerable offering of sterling on American account, which was attributed in part to profit-taking by American speculators who had bought pounds at a much lower dollar cost. Buying of dollars to finance imports from America was also a factor in the decline, and at one time the rate fell as low as \$4.40 $\frac{1}{2}$. In the afternoon a sharp recovery occurred, chiefly on New

dollars required to meet the service of the American debt. Interest on this debt, which is payable in October and November, is therefore not a factor in the exchange market at the present time.—(*The Times*,⁹ September, 1922.)

Correction of Adverse Exchanges.

In these days of disordered exchanges, a statement of the five methods of correction and a brief consideration of the present ineffectiveness of these methods will prove of interest and value to all students of foreign exchange.

(a) *Gold Remittances.* It has been shown that in normal times exchange fluctuations are limited, because a substitute for representative remittances exists in the shape of gold, and this, with

its unalterable value, fixes an upper and a lower limit called "Gold-points." It has been explained also that the rate of exchange favours the country that has to receive funds on balance, and it is clear that if the demand for remittances is satisfied by remitting gold, the rate will tend to improve. Nowadays, however, private exports of gold are not allowed, and this method cannot be applied.

(b) *Rise in the Official Discount Rate.* Between countries with sound currency systems, the most effective corrective is a rise in the official discount rate. The intention of this strategic move is to raise the value of money in that centre in order to attract funds from abroad for profitable employment. This means a foreign demand for remittances, and a consequent turning of the exchanges. In all centres market interest rates follow the official lead automatically, and the object of changes is thus attained.

At present the influence of the official discount rates is weakened by the absorption of funds by governments in order to meet their floating debt. The British Government is an omnipotent competitor in the London Money Market for the use of money, and as it must satisfy its needs it must offer the best price. It offers Treasury Bills for sale, and this profitable short-period investment controls interest rates—a fact which explains the importance of these Bills, which operate as a governmental self-filling fountain pen, at hand to draw up such financial ink supplies as it requires, to enable the Government to continue writing cheques in favour of creditors.

The Treasury Bill Rate has displaced the Bank Rate as the standard for valuing market money, and the normal method of attracting remittances cannot be applied while the Government is obliged to absorb heavy quantities regardless of cost. Bank Rate in actual fact follows the Treasury Bill Rate, since by custom banks' deposit rates and charges for loans are fixed by Bank Rate, and if the general value of money is lowered, and the banks' earning power reduced, then they cannot pay such heavy rates to their depositors whose funds they employ—and Bank Rate must drop.

The present serious fluctuations in exchange rates, moreover, discourage investment abroad. A fall in the rate might negative entirely a benefit gained in interest. This fact provides a further proof of the impossibility of adjusting exchanges by raising the official rate of discount during the continuance of the ruling abnormal financial conditions.

(c) *Adjustment of Trade Balance.* One effective method, however, is to act directly on the demand for and supply of remittances by curtailing imports and encouraging exports. This will not bring immediate relief, but the effect will be readily understood.

(d) *Reform of the Currency.* We come now to

the only means which will enable us to restore normality in the variations and corrections of rates—a reform of the currency where this is depreciated or debased, and a return to the unrestricted gold movements of pre-war days.

Our troubles to-day are due mainly to over-issues of inconvertible paper currency, and the resultant change in the standard of valuation. The surplus notes must be cancelled by an increase in the national income—derived from economical administration and a reduction in the floating debt. This course automatically reduces the supply of Treasury Bills, and restores to the Money Market its freedom to regulate its own affairs.

(e) *Raising a Loan Abroad.* There was much talk of applying to Germany another corrective—that of raising a loan abroad. Briefly, the exchanges are turned by the ability of the borrowing country to draw off the loan by selling remittances on the lending country. A loan acts as an export from the borrowing country—an export of securities, for which it receives cash. (There remains, however, a permanent effect in the opposite direction—due to the payment of interest and the repayment of drawn bonds to the lending country.)

The state of national finance and credit is an important factor in exchange. The keynote of business is confidence, and once confidence in the conduct of a nation is shaken, there is an immediate repercussion in the rates of exchange on that country through fear of a crisis.

By way of illustration we can consider one of the main causes of the improvement in the New York rate—our enhanced national credit, as exemplified in our ability and determination to pay our war debts. We have seen, too, a collapse in the exchanges with Paris and Brussels immediately it became known (in August, 1922) that nothing was to be expected immediately from Germany in the way of reparations. Confidence in French and Belgian finances was disturbed since the Budgets of those countries would show heavy deficits through the failure of the Germans to meet their Treaty obligations—expectation of which had caused France and Belgium to incur considerable expenditure.

London's Peculiar Quotations.

In the discussion of the published rates, the reader was referred to *The Times* newspaper, and in examining the tables of rates, he will have noticed that (except in the case of Lisbon and the distant centres) London quotes so much foreign currency for £1 sterling.

This is quite the reverse of the continental practice, and indeed of normal business dealings. In Brussels, a banker offers so many francs for £1; but in London the quotation is *not* so much sterling for a fixed amount in Belgian francs. It is instead

£1 for a variable amount of the foreign currency. These are two distinct methods of quoting, called abroad respectively, "quoting the uncertain," and "quoting the certain"—the "uncertain" and "certain" referring to the country's own currency.

These methods of quoting involve reverse methods of calculating, for in London, the higher the rate, the cheaper the foreign currency becomes. Clearly, if the Paris rate moves from 50 to 52, it is cheaper to buy a cheque on Paris for Fcs. 10,000 for $\pounds \frac{10,000}{52}$ than for $\pounds \frac{10,000}{50}$.

When quoted in terms of foreign currency high rates are in our favour from a national point of view, because they normally indicate that we are receiving money on balance, and this tends towards the point at which gold may be expected to arrive. They mean cheap money in the market, because Bank Rate and interest rates will tend to drop as the supply of funds increases.

CHAPTER III

THE LONDON FOREIGN EXCHANGE MARKET

IN Chapter II we noticed that London in most cases quotes "certain" (i.e. £1 for a variable sum of foreign currency), but we have reserved for the present chapter the narration of the very interesting circumstances which have contributed to the development of this peculiar system. We propose also to obtain a mental view of the workings of the market, thus to dispose of the erroneous impression which exists in the commercial community, and which we mentioned in our opening paragraph.

Why London Quotes "Certain."

The first chapter left us without doubt in our minds as to the function of the bill of exchange in the cancellation of international debts, and the intention of the section was to leave with the reader the impression that where two nations trade, only one need draw, because the bills (or the credits which arise from their collection) would be transferred to debtors who wish to make remittances. It follows from this that the price at which bills on one country are sold in another is fixed by the country that *draws and sells the bills*.

Now a number of causes have combined to create a universal demand for London bills for use as remittances. Owing to the all-powerful attraction of the £ sterling, it gradually became the custom everywhere to settle debts in that currency, and London became a clearing house for international debts. London's creditors drew on her and sold the bills to her debtors; moreover, London accepted many bills for goods which never

touched our shores, and as more bills were drawn on London than by London, rates on London came to be fixed abroad—an arrangement which avoided risk of loss in exchange for us, and which suited English traders very well indeed.

Our exchange business in London in pre-war days was not of great volume. We had rarely to "exchange," because the £ was the universal medium of payment, not only for our own import and export trade, but also between foreign commercial communities.

Five reasons may be assigned for this happy state of affairs—

1. The gospel of the £ sterling was spread by our merchant venturers who for so long had taken the foremost position in the maritime world, carrying our own goods and those of other nations to all parts of the globe. Bills on London were required in every place where men trade.

2. In 1816 the gold standard was adopted as the basis of our currency system. The measure gave us a stable currency, and bills drawn in sterling became fixed in value.

3. In pre-war days London was a free market for gold, that is to say, there were no restrictions, direct or indirect, on the export of gold. This placed limits to exchange fluctuations, and foreigners knew that they could obtain payment in gold and realize it at a known price in their own country (as described under "Gold-points").

4. Our banks and commercial houses enjoyed a reputation for strength and square dealing, and their acceptances were "as good as gold."

5. Our national wealth had enabled us to invest in undertakings all over the world, and we thus were the world's creditors. Every country had occasion to remit to us the earnings of English capital.

These circumstances contributed to making London the financial centre of the world, and all foreign banks were represented in London, either by a branch or through the agency of an English bank.

The War and London's Position.

The war, of course, deflected much of London's normal business, and great efforts were made by New York and Amsterdam to supplant the supremacy of the £ sterling. The policy of New York is still to stipulate in contracts to import into the United States, that the financing and insuring shall be effected in New York, and that the shipments shall be in American vessels. Again, the U.S.A. dollar is exchangeable into exportable gold, and therefore in some centres this unit is more acceptable than sterling. In Berlin, for example, the quotation of the *dollar* is the real indication of the gold value of the German mark. It is safe to say, however, that neither New York nor Amsterdam expects to gain very much in the long run. The improvement in our financial and

commercial position is measurable against the U.S.A. dollar as New York is a free gold market, and the steady overhauling of New York by London gives rise to hope that gold parity is not far off. Once within the "Gold-points," and our old position is secure. The course of the present chapter will show the enormous advantages which we hold at the world's disposal.

The Elements of Foreign Exchange Operations.

Operations in foreign exchange consist of buying and selling any form of remittance by which indebtedness will be extinguished.

A foreign exchange banker buys bills on foreign countries—cheques, drafts, mail transfers, telegraphic transfers, and coupons—in short, any document by which he can claim foreign currency to meet his requirements. The amounts will be placed to his credit with his foreign agents, and against these credits he will sell drafts, mail transfers, and telegraphic transfers, and the differences between his buying and selling rates give his profit.

Banks buy from their clients and from one another. In the latter case the operations are rarely executed direct, but through the intermediary of a broker, who is a valuable member of the market. His function is to bring buyers and sellers together, for which service he receives a brokerage. Each broker is a specialist in a certain group of currencies and has his finger on the pulse of his markets both here and abroad. He does not fix rates—this is done by the buying banks who make offers according to their needs, and the selling banks who seek the best prices for their wares.

The Continental "Bourse."

In London there is now no "official market" in foreign currencies, such as the Stock Exchange with its officially published list of prices for stocks and shares. On the Continent there *is* in each centre an official Bourse daily for *foreign currencies*, and only the official rates there quoted are accepted for legal purposes. In Madrid, for example, the brokers and bank representatives deal in the afternoon for half-an-hour. They stand round in a circle and buy and sell by the primitive method of shouting; all the time their assistants are receiving and sending telegrams (giving orders and making offers), and the advantageous execution of business in the Bourse seems to depend on the strength of lung-power enjoyed by the principals. The figures at which contracts are concluded give the official range of the market.

In Brussels and Antwerp official dealing takes place between 1 and 3 p.m., but the banks and brokers do their business comparatively quietly by personal visits to the "pitches" of their clients, making also full use of the efficient telephonic and

telegraphic services direct to and from the Bourse to foreign centres—London, Paris, Amsterdam, Rotterdam, Cologne, Zurich—as well as to all the leading cities of Belgium.

Unofficial Markets.

But in continental centres the business is by no means restricted to the official times and places. During the rest of the day business is conducted by personal visit or telephone (banks and brokers are linked up by private lines)—and this is entirely the system in New York and London. The London market is a close network of telephones, the extreme pegs of the net being fastened in the chief provincial towns, and in the nearer continental cities—Paris, Brussels, Antwerp, and Amsterdam. Each of these again has its own net, so that by rapid communication and prompt dealing rates are kept almost at a dead level in all centres. Telegraphic and cable business also is considerable and very rapid, the service with New York being remarkably efficient. Indeed, the smart cable service makes London the clearing house for New York's European business.

London Before the War—and Now.

This system marks a great advance on pre-war days when business was done by post and telegram, and brokers strolled leisurely round from client to client. Rates were very stable, and a quotation could be given firm for several hours. Now it is often a matter of seconds only. The pre-war position of the £ sterling as an international currency unit made the London exchange market comparatively small. Nowadays, however, both the character and the volume of business have changed greatly. During the war the foreign trader developed a habit of requiring payment in his own currency for the goods and services we so urgently needed, and this change, coupled with the serious and frequent fluctuations in rates, prevented firm dealing in sterling for future deliveries of goods.

New Conditions for English Traders.

English traders still are obliged to take on themselves a portion of the risk of handling foreign currencies. They have had to overcome their old bias in favour of the £ (and in the process they have learned that English is not the only language in which the business of the world can be effectively conducted). It is a well-known maxim that "banking follows trade," and the banks have duly provided all the necessary facilities for financing our foreign trade in foreign currencies.

It can be taken as a universal rule that transactions with a foreign country are now settled in the currency of the country which supplies the goods. In the case of Germany, the rule is not applicable for the moment, as her traders are

insisting on payment in currencies which have a *value*, and thus are accumulating credits abroad, especially in sterling and dollars.

The rule, however, explains the relatively heavier risk which English merchants are now called upon to face in their dealings with other nations. We have to take an *active* interest in

"carrying a position" in any currency, for if they are overbought or oversold, they are running the risk of an unfavourable turn in the rate.

The operator's day begins about half-past nine. His first duty is to go through the enquiries and orders which have accumulated by mail and cable



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foreign currencies, and the methods devised by the banks to prevent exchange losses for our traders will be discussed in the next chapter.

The Principles on which Banks Operate.

It will interest the reader to know on what lines the banks conduct their foreign exchange business. In the first place, it is essential to bear in mind that any suggestion of speculation is strongly condemned, and every care is taken by the banks' operators to see that their buying and selling deals balance as nearly as is possible. In technical language, they see that they are not

since the close of the preceding day's business. He studies his telegraphic advices of the rates and tendencies in foreign markets, and within a very few minutes he will be testing the market to place his opening orders. All day his in and out telephone lines will be incessantly at work, and his sheets will show his record of the movements in rates. His "book" shows his buying and selling orders, which it is his aim to keep level, and avoid loss—even though he has "inside" knowledge or a firm conviction that he could make a big profit by keeping a position during the day or even overnight.

Dealings with foreign centres involve intricate

and rapid calculations to attain an instant comparison in rates, but the introduction of special tables and mechanical contrivances has smoothed the operator's path considerably.

CHAPTER IV

BANKS AND THE FINANCING OF COMMERCE

BEFORE reviewing briefly the various facilities which a banker is able to provide for his clients, it will be well to sketch the position of the banks in our financial system and to consider also their attitude towards financing.

In this chapter the writer will have to proceed warily, for English traders have long considered that they have serious cause for complaint in the attitude of banks in their capacity as lenders. From time to time, the chairmen of the various big banks have defended their policy, and the explanations given in this chapter are intended not as a contribution to the discussion of this policy, but as a guide to the reader in framing his case for consideration by his bank.

What is a Banker?

A banker has been crudely defined as a man who takes care of other people's money and lets them have some of it when required. This definition is largely correct, for our banking system is erected on the simple fact that all depositors do not require all their money at the same moment.

This elementary experience enables a banker to keep in hand such portion of the deposits as could possibly be withdrawn at any moment. The figure, of course, is an outside one, and the balance the banker uses with safety and profit. He is a wholesale dealer in money. He "buys" from his depositors, and "sells" mostly to trade clients, and the fact that he is able to use about 80 per cent of his deposits accounts for his ability to allow interest to the depositors. This interest is his "buying" price; his "selling" price, however, although based on his "buying" price, is not fixed; it depends on the quantity of loanable funds available compared with the requirements of trade. If the rates for loans are forced down by an excess of supply over demand, then deposit rates also must come down, and the margin between the two rates is wider than before the war, as bankers' expenses are much heavier nowadays.

Even the immortal diarist, Pepys, seems to have been surprised that his deposit swelled, for he records that he deposited with his goldsmith (our bankers were originally goldsmiths) £2,000 "to be called for when I please"; and when he called for it three months later, he found it increased to £2,023.

English Banking Policy.

In this use of idle deposits we find the main economic justification for bank amalgamations. Through their London headquarters, the banks mobilize, as it were, the cash which the community does not immediately require, and utilize the reinforcements in London or in the provinces according to the requirements of legitimate trade. Thus the unemployable deposits of branch banks in agricultural and residential districts become available for manufacturing and distributing centres for financing our internal and foreign trade. Consider the absorption of Parr's Bank by the London County and Westminster. Parr's was a northern bank, and is now able to draw upon the funds of the "Westminster," which was a southern bank, and the mobilized resources of the two banks are available for any and every part of the country.

British banks keep their funds as liquid as possible. They do not follow the lead of continental institutions in acquiring interests in industrial concerns, but insist that credit shall return quickly to its source. Their funds in this way are prevented from "freezing." This mobile force of loanable capital is to assist in making, selling, and distributing goods, and facilities are not granted to enable a borrower to hold goods for higher prices; if the cash is to be sunk in buildings or machinery, or in any other way rendered immobile.

Hence the banks facilitate the production and distribution of our supplies of food, raw materials, and manufactured products; and through their collecting machinery internal and international indebtedness is paid off and cancelled. They thus perform a great economic service, and its far-reaching importance is not generally realized, because happily, the public has never had to envisage the effects of a stoppage—and happier still, is not likely to have to face such a disaster.

The *commerçant* can rest quite satisfied that every application for accommodation made to an English bank receives thorough consideration by a highly-experienced staff at the Head Office. Naturally, traders and bankers often hold different views of the "reasonableness" of individual propositions submitted. A case might be quite outside the accepted principles of British banking and the client, sceptical of the reason given by the bank, feels aggrieved at the rejection of what in other quarters would be quite a fair risk.

A bank does not lend its own money—its capital and reserves are mostly invested in gilt-edged securities—and in its two-fold capacity of guardian and lender of other people's surplus funds, the bank must see that it does not prop up shaky firms or assist in speculative undertakings. Their policy, their strength, their capital and reserves, the confidence of the British public,

the extensive branch system, backed by sympathetic and sound commercial legislation, have all served to create abroad a thorough respect and confidence in our banks and their engagements. The difficult years of war have enhanced their prestige in the eyes of our foreign friends, and it is this confidence in their methods and stability that facilitates the movement of our international trade. It is the readiness of our banks to pledge themselves on behalf of deserving clients that makes importing and exporting the comparatively simple process that it is.

This high standard of commercial morality is the sheet-anchor of our mercantile system. A high business standard is as fundamental as sound currency, credit, and banking. Modern business is based not on the legality but on the sanctity of contracts—on the common faith that a business man will do what he promises. Commerce, at the present moment, has to face a long steady climb, and progress will be satisfactory or otherwise in proportion as men and nations enjoy the confidence of each other in the faithful observance of the letter and spirit of their contracts.

This is the basis of each bank's part in financing foreign trade. The bank trusts its customers to fulfil their promises, and in the face of this confidence pledges its name to its foreign agents, and an examination of the various methods of financing foreign trade will show that this confidence enters into every transaction.

CHAPTER V

EXPORT TRADE

We will consider now the various ways in which an exporter can utilize the services of his banker to secure payment from his buyer overseas. The first and simplest method is by drawing a bill and sending it *for collection*.

The goods have been made and are in the hands of the shipper. The next step is to draw the bill of exchange (on impressed-stamped paper) and to remit it to the bank with instructions which will conform to the contract with the buyer. This contract will have stated the currency in which payment will be made, the term of the bill of exchange, the documents required, and whether these are to be delivered to the drawee (the buyer) against acceptance or payment of the bill of exchange.

The exporter's bank will have an agent in the town in which the buyer lives, and will remit the bill with all the necessary instructions. Its agent will present to the buyer in conformity, crediting the proceeds to the remitting bank's current account (if the bill is in the currency of the country) or remitting a cheque on London, if the bill is drawn in sterling. The London bank as soon as it receives advice of

payment will remit or credit the proceeds to the exporter, but if the latter is waiting to make a further shipment to the same buyer, advice of payment should be obtained by telegraph.

If the amount of the bill is to be paid in sterling, it should be drawn in British currency and claused: "Payable in sterling; or in local currency at the collecting banker's selling rate for sight drafts on London at the time of payment."

In the case of an export to Australia, New Zealand, or South Africa, the contract should state definitely: "Exchange and all charges payable by buyer," and these expenses should be included in the invoice—which should state also whether the proceeds are to be remitted by a draft on London on demand or at thirty, sixty, or ninety days' sight. Exchange with colonies which use the sovereign as currency is quoted at a premium or discount and is arranged periodically by the London offices of the colonial banks concerned. For example, to obtain a draft on Pretoria for £100 it may be necessary to pay £102 in London, in which case South African pounds would be at a premium of 2 per cent. Again, if an exporter draws at sight on Pretoria for £100 when exchange is quoted at one-half per cent discount he will receive £100 less 10s. 1d. unless, of course, he covers himself by adding this amount to his invoice.

The exporter must be prepared for things to go wrong, and should instruct the bank as to whether the bill is to be protested in case acceptance or payment is refused; he must add instructions as to the warehousing and insuring of the goods after the ship has discharged; he should state whether his local agent (if any) has authority to give instructions and what is the extent of his authority. In the absence of such an agent, the exporter can give the *bank* instructions as to sale or transhipment.

The various documents used in foreign trade will be discussed a little later, but it should be brought to the notice of a prospective exporter that conditions vary very considerably in different countries, and such a reader cannot be too strongly advised to avail himself of the experience of his bank's foreign department when entering a new and foreign market.

Bills for Negotiation.

If the bill discussed in the paragraphs which immediately precede should be for a long term, say, sixty or ninety days' sight, the exporter may wish to realize the bill in order to utilize the proceeds at once in further production. He can do this by *negotiating* the bill, which means that he *sells* it to his banker. The latter purchases on the standing of his customer, for in case of non-payment he will look to his customer for reimbursement, or, in other words, he will exercise his "right of recourse." To preserve this legal right,

he requires his customer to endorse the bill as a condition of negotiation. The banker may or may not know something of the drawee—if he does, so much the better—but as a general rule the transaction stands or falls on the reputation of the exporter.

The purchase price of the bill will depend on the value of the currency in which the bill is payable, for if the banker decides to sell to his agent, the discount rate will be that ruling in the country of origin of the currency. Further allowances will be made for risk, stamp duties, and profit.

A method of avoiding liability for loss in exchange has long been practised by English traders who have occasion to *negotiate* foreign bills, especially if drawn on countries with which exchange rates fluctuate often and wildly.

In order to avoid any question as to liability for loss in exchange, a bill on one of such countries may be drawn in sterling, but incorporated in the body of the bill is a clause *exchange as per endorsement*, which means that the rate of exchange will be fixed by the banker who negotiates the bill, and that the rate will be endorsed by him on the bill itself. The sterling is then converted and the foreign equivalent written on the face of the bill, the banker having constituted himself umpire as to the fairness of the rate.

Lately, however, cases have occurred in which drawees have disputed the claim (as a result of heavy exchange fluctuations), and some bankers now quote a rate and insist on the *seller's* endorsing it on the bill. Any subsequent difficulty then falls to be settled between drawer and drawee.

In the case of drafts on colonies which use the sovereign, exchange should be included in the invoice.

Advances Against Bills for Collection.

Where a banker is not prepared to negotiate bills, he may be disposed to advance, say, 70 per cent against the amount of such bills in his hands for *collection*. In England this would be in the form of an overdraft in current account if the advance is of a temporary nature, since the banker has a *lien* on all negotiable instruments in his hands as a banker. He is thus entitled to retain bills deposited for collection (or their proceeds) as a set-off against sums due to him from his customer.

Documentary Credits.

We have seen that in drawing bills direct on their buyers, exporters must be prepared for non-payment, and in order to avoid this risk a method has been devised to ensure payment as soon as the goods have been shipped. The facility is most valuable in transactions with distant countries.

This third piece of machinery enjoys the name

of "Documentary Credits," and is without doubt the most satisfactory way of arranging import and export business, particularly where parties are not well known one to the other.

If the exporter stipulates that a credit must be opened in his favour, the importer must arrange for payment to be made to the exporter when the latter presents his bill and documents in order, to the local agents of the importer's banker.

This procedure may be illustrated by the following transaction—

A, in Chicago, exports something tinned to B, in Antwerp.

A desires payment in Chicago in dollars as soon as he has despatched the goods.

B requests his bank, the Crédit Belge, to arrange for their agents in Chicago, the Eastern National Bank, to pay A a certain amount against delivery of certain specified documents within a certain specified time.

If the documents are complete and conform in every detail to B's instructions, as delivered by the Crédit Belge, the Eastern National Bank will pay A; debit the amount (together with their charges) to the account of the Crédit Belge; and forward the documents to the last-named bank. Possibly the Eastern National Bank will have been instructed instead to *accept* a bill drawn by A at a definite term, and A can then sell the accepted bill in the market, or to his own banker.

The Crédit Belge will deliver the documents to B and debit his account for their charges and the claim of the Eastern National Bank; and B is in a position to take delivery of the goods on arrival. (The method by which B will avoid exchange loss on his dollar engagement is explained in a subsequent paragraph.)

The terms of such credits are contained in a document called a Letter of Credit (which may or may not be an engrossed letter) and necessarily vary very widely according to the nature of the contract and the countries concerned. Precision is perhaps the most important feature of this class of business. The exact documents required, the exact nature of the goods, the dates of shipment, and the date on which the credit expires, all merit the greatest attention, if the buyer is to receive the exact goods and by the exact time to catch his market.

Documentary credits may be divided into *classes* of which the most important are *unconfirmed* and *confirmed*. These differ only in one particular, which is that an unconfirmed documentary credit may be cancelled by the importer at any time, whereas a *confirmed* documentary credit can be cancelled only if the exporter and importer mutually agree, and unless he cannot fulfil the contract it must be very rarely that an exporter would give such consent, for he will have bought or manufactured on the strength of the original order. If the importer instructs his bank to open



GENERAL VIEW OF THE VICTORIA AND ALBERT DOCKS, LONDON

a confirmed credit, his bank pledges itself to his agent to pay—provided the agent correctly discharges the instructions of its principal. Both banks charge a commission for these services, but in addition the importer's bank will usually require security, such as deposit of a cash margin of from 10 to 25 per cent of the amount of the credit. This, however, will be waived in certain cases, and certainly if counter-credits have been opened in favour of the importer by the parties who are buying the goods imported.

An *unconfirmed* documentary credit does not appear to be very satisfying. Of course, the seller must have the utmost confidence in his buyer, in that the legal right of cancellation will not be invoked. This right is that the buyer may cancel the credit *at any time* and this cancellation will be effective to the extent that the instructions have not been carried out at the moment of their receipt by the agent appointed to pay the exporter.

If the exact terms of a credit are not fulfilled, the paying banker cables for instructions—which are sought from the importer by his bank—since otherwise the paying bank would be disposing of funds contrary to the authority given and might lose its money. It may happen that a certain document is not forthcoming, that the terms of the insurance do not agree, that the description of the goods is at fault, that the price is higher than the importer stipulated, or that payment was claimed after the expiry date of the credit. In all such circumstances, only one party can decide, and that party is the importer, since on the face of it the exporter has varied the terms of the contract.

Revolving Credit.

A revolving credit is one which is automatically renewed immediately for any amount it may be utilized (thus keeping the liability at a fixed sum). For example, a revolving credit may be opened for £50,000, and may be utilized in successive amounts of £10,000, £20,000, £15,000, and £5,000; as each of these amounts is finally liquidated the credit becomes available for a similar sum.

An example of the utility of such a credit is found in the case of a manufacturer of woollen goods in Belgium, who needs to import wool from England, and re-export manufactured articles. He has to finance his manufacturing processes, but during the period he is liable to lose heavily in exchange. Consequently, he wishes to arrange all his buying and selling dealings on a sterling basis.

It will be necessary to arrange such a facility in England, and hence he must get his bank to open the necessary credit and to make itself liable to the English bank for the sums required.

His bank will do this by opening a revolving credit, and will draw on the English bank in favour of their clients, who have thus the means of paying

the English wool exporters in sterling. As the Belgian manufacturer gets the finished product he re-sells to his English market, and is enabled to put his own bank in funds in London to meet the maturing acceptances (which will be debited by the English bank to the Belgian bank's account).

Other Credits.

There are several other kinds of credits, mainly for use by travellers; but if the reader has occasion to go abroad and he knows definitely to what towns he is going, he can arrange for his own cheques to be cashed. His own bank will send specimens of his signature to their agents, and state to what amount the cheques may be drawn (as arranged with the reader) and for what period the credit is in force. Such a credit is most advantageous where a fairly long stay is to be made in any one town.

For pleasure trips, however, it is better to take a traveller's letter of credit, or circular notes, which will enable the traveller to obtain funds from his bank's agents in any foreign town—except, of course, the very smallest. His banker will issue these, and debit his account for the amount, but any unutilized balance will be refunded when the letter of credit or circular notes are surrendered.

CHAPTER VI

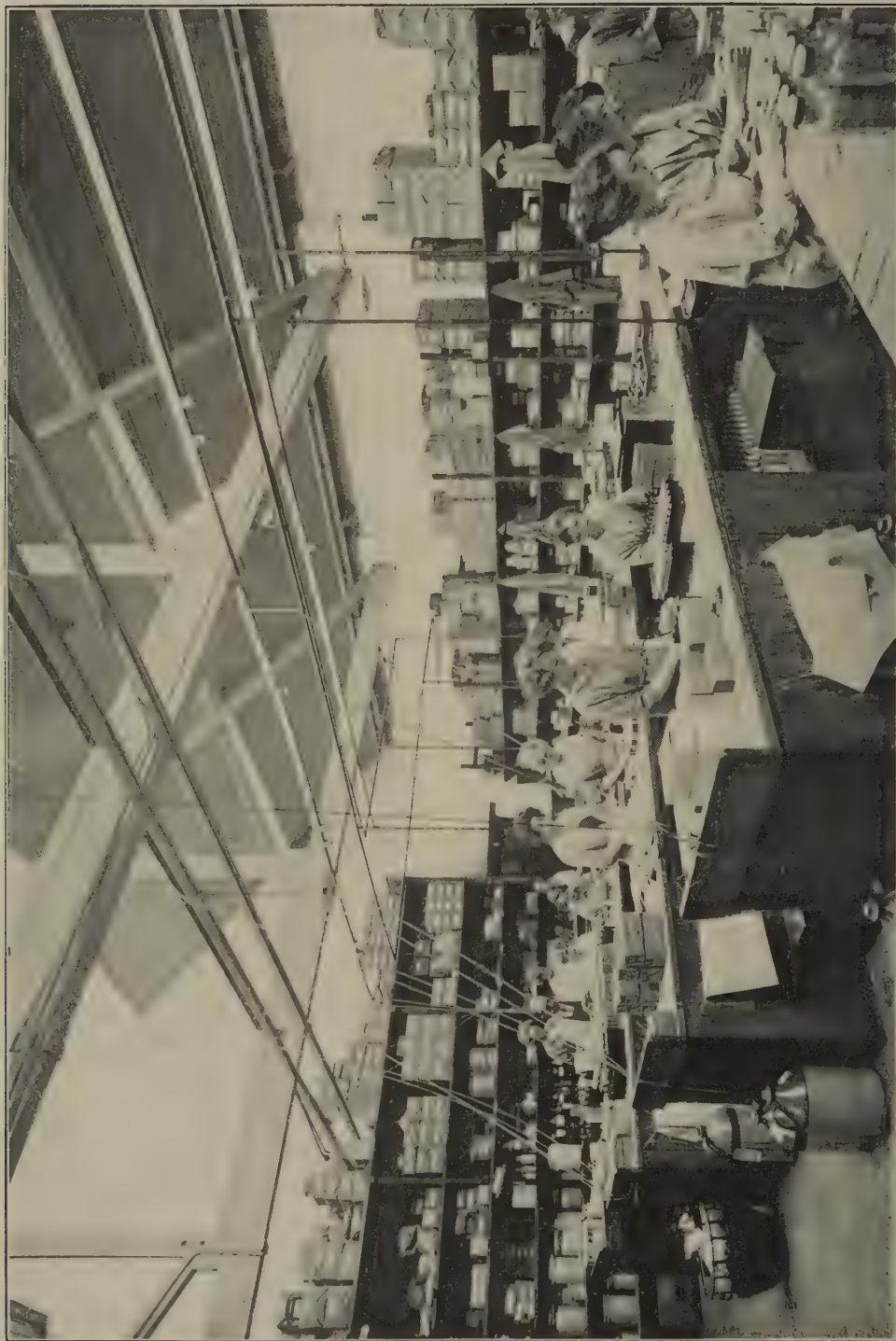
IMPORT TRADE

THE preceding paragraphs have referred rather to export trade, but, of course, with due modification, the information may be applied to import trade. We have to refer, however, to two special items: (a) rebate; and (b) advances against merchandise.

Rebate.

An importer who is unable to obtain the documents of title to his goods against acceptance of the relative bill of exchange, must be content to pay the collecting banker at maturity. But by mercantile custom in this country, the acceptor may take up the documents at any time before maturity (e.g. if he has sold them, or if the goods have arrived) for the face amount less a rebate for the unexpired term of the bill at a rate per cent equal to $\frac{1}{2}$ per cent above the current deposit rate of the London joint-stock banks.

This rule, however, applies only to *documentary* bills. The holding banker may be prepared to allow the acceptor to "retire" (as it is termed) a clean acceptance, but this is a favour, and cannot be insisted upon by the acceptor as a right. Moreover, the banker will quote a rate of rebate to suit his own convenience.



Photo

PACKING DEPARTMENT OF MANUFACTURING CHEMISTS
(Messrs. Burgoyne, Burbidge & Co., Ltd.)

Keeleys Ltd.

Frontispiece

Advances Against Merchandise.

The practice of advancing against merchandise is a development of the war period. It is one of the precedents then created in order to give the maximum assistance to the country, and although limitations necessarily have been placed since to the circumstances in which this may be classed as legitimate "peace-time" banking, the principle is likely to remain, as marketable merchandise has been found to be a suitable security for temporary advances.

Facilities are not given, however, unless the merchandise is of the nature usually dealt in by the borrower, and as a rule the goods must have been already shipped and sold. The banker will take a substantial margin in fixing the amount, often stipulating also that the documents of title shall be handled by the bank. This means that the bank will collect the proceeds from the buyers, in accordance with details supplied by the importer. A cash margin may be required (and must be maintained) to cover any risk while the documents (and goods if these have arrived) are in the banker's hands, but more usually the advance would be for, say, 70 per cent of the value of the goods on arrival. If they are not immediately taken up, the goods will be warehoused in the bank's name, insurance, customs duties, and other charges being for the importer's account. Without doubt, the merchandise will be inspected by the bank's expert.

CHAPTER VII

THE DOCUMENTS USED IN FOREIGN TRADE

THE documents used in foreign trade comprise the following: bill of lading, insurance policy, insurance certificates and brokers' cover notes, shipper's invoice, consular invoice, certificates of origin and inspection, letter of hypothecation, trust receipt, and delivery order.

(a) Bill of Lading.

In England we have no legal definition of a bill of lading, but in common law it is considered to be a document signed by the captain of a vessel acknowledging receipt of certain specified goods and stating the conditions under which they are to be transported on his vessel to the consignee (or "to order" at the named destination).

Strictly speaking, a bill of lading is not a negotiable instrument, because the holder is prejudiced by any defect in his transferor's title to the document. It is, however, a document of title to the goods named in it, and the person to whom it is made out may transfer his rights to the goods by endorsing and delivering the bill of lading. If endorsed with the simple signature of the consignee, the document is transferable merely

by delivery. The master of the ship will deliver the goods against production of the bill of lading and payment of freight if this is not prepaid by the shipper. If the different parts of a bill of lading issued in duplicate or triplicate have been negotiated, *the first transferee for value* is the legal owner of the goods, but the master of the vessel is not liable if he acts *bona fide* and delivers the goods to a person who presents a bill of lading, but who is *not* the first transferee for value.

In this, then, lies the risk in handling bills of lading—which are issued usually in a set of two or three copies, the captain keeping an additional copy for his files. The form of bill of lading provides for a statement of the number of copies issued, and a party who has to deliver a bill of lading is required to give complete satisfaction (and often an indemnity into the bargain) in respect of any missing copy. An exporter who claims payment under a credit will not be paid unless he delivers a complete bill of lading (or accounts satisfactorily for an incomplete set); an importer who seeks a loan must be as precise, or go empty away.

Only a "clean" bill of lading is a good delivery—that is to say, there must be no qualification of the statement that the goods were "shipped in good order and condition." A banker would refuse a bill of lading on which the captain had stated, for example, "some sacks old and re-sewn, and losing contents."

It should be noted also that the shipowner is entitled to retain the goods until the freight is paid.

(b) Insurance Policy.

Goods conveyed by a sea route are covered by a marine insurance policy: "A contract whereby the insurer undertakes to indemnify the assured, in manner and to the extent thereby agreed, against marine losses, that is to say, the losses incident to marine adventure." (Marine Insurance Act, 1906.)

The first essential in such a contract is that the person who effects the insurance must have an "insurable interest" in the goods, and in consequence there must be a real transfer of risk from the assured to the insurer. The subject-matter for a contract of marine insurance may be the ship, goods connected therewith, cargo, freight, or money lent on bottomry. The contract is one of indemnity, but not of absolute indemnity. In the case of an unvalued policy, the measure of indemnity is the full extent of the insurable value, and in the case of a valued policy, the extent of the value fixed by the policy.

A set of shipping documents usually includes an insurance policy, and if for some reason the insurance policy does not accompany the other documents, it is important to explain to the banker exactly what has been done in the matter of insurance so that he may be in a position to

satisfy the drawee. The exporter should state the risks and the period for which the goods are covered—and this is a matter in which his bank's foreign department might well be consulted before the policy is taken out.

In dealing with questions of marine insurance, it is important to bear in mind that the policy is at no time a perfect instrument of indemnity. Such phrases as "all perils" must not be taken literally, but in the sense that the risk is "all perils of the seas." Riots and strikes, for example, must be made the subject of a separate agreement. It is not possible to insure against every form of loss; no underwriter would accept every conceivable risk. Experience since the Armistice has shown the extent to which insurance may be exploited, and the character of such a contract of indemnity creates opportunities for making a profit out of negligence or fraud. Yet strangely enough, the policy does not say all it means, nor does it mean all it says ("theft," for instance, is robbery with violence, and does not include pilferage); but the *intention* of the document has been thoroughly beaten out with the course of time, and while the old wording is retained, the precise effect may be ascertained from the Marine Insurance Act, 1906, and subsequent legal decisions. So jealously is this wording guarded that additional risks are not incorporated in the document, but are indicated by printed slips attached to the policy, or sometimes are rubber-stamped somewhere on the policy—the most noteworthy case in recent years being, of course, the War Risk.

The first point is to satisfy oneself when shipping cargo as to the perils covered by the policy—

A "marine adventure" exists where insurable property is exposed to maritime perils, namely, "perils of the seas, fire, war perils, pirates, rovers, thieves, captures, seizures, restraints and detentions of princes and peoples, jettisons, barratry, and any other perils, either of the like kind, or which may be designated by the policy."

The second matter for consideration is the *period* of the risk covered by the policy, and the exact significance of "voyage," "during the ordinary course of transit," and similar words and phrases which limit the period, bearing in mind the fact that the policy does not cover indefinite delay. In Constantinople (to mention one of a number of ports so affected) insurance cover from warehouse to warehouse includes a period of *two* days on the barges (unless the policy otherwise provides) and the cover ceases when the goods enter the customs. As goods may remain in the barges for six weeks the terms of insurance need to be carefully considered beforehand. Moreover, in some foreign ports, warehouse accommodation is quite inadequate, and goods may have to be left out in the open, and protection against weather and pilferage cannot be guaranteed. This is the case even in Spain, where police protection should

be obtained for goods until actually lodged in warehouse. For this reason also shipments to the River Plate are covered only until "arrival at any shed (transit or otherwise) store, custom house, or warehouse, or upon the expiry of ten days subsequent to landing, whichever may first occur."

Thirdly, one must consider what insurance is to be effected at the *expiration* of the marine policy, bearing in mind that in countries like Turkey, Persia, Greece, Rumania, and the many divisions of South America, insurance against pilferage cannot usually be covered locally. The only risk accepted is fire.

Lastly, the shipper should ascertain definitely whether a claim for loss will be settled on the basis of *invoice* value, or the *insured* value, and to what percentage. This will be decided according to whether the shipper has taken out an *unvalued* or a *valued* policy.

(c) Insurance Certificates and Brokers' Cover Notes.

It happens sometimes that a series of shipments are insured by one policy, and in respect of each shipment the broker or insurance company issues a certificate to the effect that the shipment is insured under a "floating policy" and stating to what extent. This is then included with other documents and is usually considered a good delivery.

A person who accepts this certificate in England, on behalf of the buyer of the goods, is nevertheless running a risk. So long ago as 1872 it was legally decided that a buyer under a c.i.f. contract is entitled to a proper policy of insurance, and so recently as 1922 a case was fought on this point, the judge deciding that a mercantile custom to accept anything but an insurance *policy* had not been proved. The buyer should expressly waive his right to such a policy in giving his instructions to his bankers.

(d) The Invoice.

This should set out very clearly the fullest details of the shipment, and to avoid any possible dispute should state the currency in which it is to be paid. Such complete information is of great use to all persons who handle the goods or documents, but especially to the customs authorities. For the sake of precision, this document is often called a "shipper's invoice."

(e) Consular Invoice and Certificates of Origin and Inspection.

These documents are sometimes required by the customs regulations of importing countries. They are issued to the shipper at the port of loading by the consul of the importing country. Such documents contain full particulars of the goods and state the shipper and consignee. They certify the origin of the merchandise and if this is intended for human consumption, that it is fit for the end in view.

(f) Letter of Hypothecation.

A banker who negotiates documentary bills may decide to take the relative goods as security, and in this case the seller signs a letter of hypothecation, which authorizes the bank to sell the goods in case the bill is dishonoured (the expenses being

whether he can safely allow the importer to handle the consignments—for the cash is due to the bank, and probably the importer will need the funds to enable the bank to take up at maturity the acceptance it has signed for account of the importer.

Sometimes the goods are warehoused, and the



By permission

Development Dept., Cardiff

DISCHARGING FROZEN MEAT AT QUEEN ALEXANDRA DOCK, CARDIFF.

for the exporter's account), and to treat the proceeds of the sale as payment of the bill.

The letter forms an agreement between the bank and its customer, and while delivering the documents as collateral security, it gives complete cover to the negotiating bank, since the exporter is liable for any deficiency and even any sum recovered in respect of insurance is held to await the result of the bill.

(g) Trust Receipts.

These are the natural outcome of documentary credits. The importer's banker has to decide whether he must retain control of the goods, or

importer must produce evidence of sale before he is allowed to touch them, or any portion of the consignment. More often, however, the goods are delivered to the importer on his signing a *trust receipt*, which is an undertaking to hold the goods in trust for the banker, and as the goods are sold to hold the proceeds at the bank's disposal.

Even then the importer may be required to put up security.

(h) Delivery Order.

A delivery order is a simple and useful means of transferring the title to goods. An importer

in possession of a bill of lading covering a consignment of goods may wish to sell these to several buyers. His first step will be to lodge the bill of lading at the wharf where the ship discharged, and then he can instruct the wharf to deliver certain specified boxes, or bales, to the bearer of the instructions—which are comprised in the delivery order.

CHAPTER VIII

METHODS OF AVOIDING EXCHANGE LOSSES

IN an earlier chapter we discussed the causes of fluctuations in rates of exchange, and without doubt the reader has been able to account fairly satisfactorily for the disturbed state of the leading currencies of the world since the War. He will have noticed in the daily press the wide and frequent fluctuations to which they are subject, and he will see that commodity prices cannot be fixed unless losses in exchange can be avoided.

This difficulty the banks have been able to overcome, and we shall proceed to describe the methods open to merchants. Of course, two means for exporters have already been dealt with—under Bills for Collection and Bills for Negotiation respectively.

We will call the next method, therefore, the *third*.

Current Accounts in Foreign Currencies.

An importer having to pay in foreign currency at some future date may purchase his requirements and place the amount to the credit of a current account in that currency, to be drawn off at will. As a rule, however, the banks issue drafts to the depositor's order, or otherwise transfer funds by his instructions.

This facility is specially useful to a merchant who has regular dealings with a foreign country, for he can draw bills in, say French francs, have them collected, and the amounts credited to his French franc account, to be available when he makes his next payments to France. He can have coupons so dealt with; he can purchase francs at a favourable moment to be subsequently invested in France.

All such accounts are kept at the nearest foreign department of the merchant's bank, but it must not be imagined that the funds are there. No, the francs which the reader may have at his disposal are in Paris and form part of his own banker's balance there. In effect, the amount of customer's balances is *earmarked* in the records in London, or Liverpool, or Manchester, or wherever the merchant's franc account may be kept, and the reason for centralizing such accounts is that all foreign business is passed through the

foreign department, which also is responsible for the bank's foreign positions as described in Chapter III.

In the case of deposits in less stable countries, the banks usually require depositors to assume all risk of loss resulting from failure of the bank with which his funds are deposited.

In some cases it is possible for the banks to allow on customers' balances in foreign currency a portion of the interest which is credited to the banker by his agent who holds the actual funds. This possibility is decided by the size of the account and the amount of work involved in conducting it, but any such credit would be in the currency in which the account is kept.

Advances Against Foreign Currency Balances.

It happens at times that an exporter accumulates heavy balances on his accounts in foreign currency, and to obtain funds for his business, he may desire to utilize such balances. To realize them, however, might entail considerable loss in exchange, and in such a case, temporary accommodation may be given by his banker against security of the foreign money deposits.

Now this security is actual cash, but its fluctuating value means that a heavy margin would be taken by the bank—and the borrower would have to undertake to maintain that margin if the currency concerned depreciates.

Loans in Foreign Currency.

It follows logically that a *loan* may be granted in foreign currency, but to do this a banker will have to obtain (if the loan is considerable) an overdraft facility in the country concerned, before he can meet his client's requirements.

The cost of such a facility might be fairly heavy as the banker himself would be charged probably 1 per cent above the official discount rate in the country of origin of the currency. Hence the client will have to pay something beyond this rate, and perhaps also a commission on the turnover, as is exacted in some foreign centres.

Such a temporary facility is specially suited to a merchant who is handling one consignment, and buying and selling in the same currency.

Forward Exchange Contracts.

We have arrived now at the fourth, and most important, method of avoiding loss in exchange.

For a large contract, an importer would undoubtedly be unprepared to pay cash down to cover his needs in foreign moneys. He knows that by a certain date he will have to pay (or an exporter will be receiving) a sum in a foreign currency, but to fix his commodity prices he must know now his exact liability or asset, in *sterling*.

To meet this difficulty the East has come to

the aid of the West. In China, owing to the fluctuations in the silver exchange, a system of "forward exchange" dealing had been developed by the banks, and as soon as European exchanges began to rock, the banks in Western capitals adopted the same system.

The principle is that a bank is prepared to buy or sell a definite sum in foreign currency to be delivered on a definite future date, payment *then* being made at a rate fixed *now*. A Midland importer of Belgian steel rods, for example, contracts to purchase a consignment, and to pay in three months' time in Belgian francs. He at once "buys forward" from his bank the contract amount of this currency, which is to be at his disposal, against payment in sterling, on a certain day. At the maturity of the exchange contract, the importer pays the agreed sterling to his bank, and either receives a draft for the francs, or instructs the bank to effect the payment for his account.

The advantage is clear. When he contracted to purchase the steel rods, he contracted also the *sterling* equivalent he would be paying for them, and arranged his selling prices on that basis.

Possibly the bank would require a cash margin of 5 or 10 per cent to be maintained by the purchaser during the term of the contract, for clearly the bank must have a guarantee to its satisfaction that the contract will be taken up in due course. Should the purchaser not take up the currency the bank would have to purchase fresh currency to meet the counter-commitments it had made, and perhaps a heavy loss would result.

In this matter we recur again to our old friend the "foreign position." As soon as a banker concludes a forward sale he effects a counter operation on the same rate-basis. It may be a forward purchase or a "spot" (immediate) purchase, and therefore if the client does not meet his engagement, the banker has on his hands the amount of the contract, which he has to sell at the current rate. The cash margin deposited will offset any loss.

The Basis of Forward Exchange.

The reader will be interested to know how these contracts are arrived at, and why the banker is able to fix a rate so far in advance; and in considering the matter, the first essential fact to realize is that *all money has an earning-power*, which varies in different countries according to local conditions.

One of our very earliest points in discussing exchanges was that a foreign purchase involved the translation of money of one country into that of another. So it is with forward exchange contracts—the banker sells one currency and receives another.

We will revert to our importer of Belgian steel rods. His banker sold him Belgian francs, and to cover that sale had to purchase Belgian francs—we will assume for immediate delivery. To secure these francs he paid somebody sterling, and thus he received a sum of Belgian money earning interest in Belgium for three months; but he will be losing interest for that period on the sterling he has paid away, and it is the difference between these two rates which decides the forward rate.

Let us work out an example.

The transaction is that a bank is going to deliver to a client in three months a cheque on Paris for Fcs. 100,000.

In London, cheques on Paris are sold at £1 for 55 francs (for immediate delivery). Interest rates are: Paris, 5 per cent; London, 3 per cent. What will be the rate and sterling price?

Having thus contracted, the bank will cover its position by buying in this amount at once—at 55. It will pay out sterling, losing interest at 3 per cent, and will receive French francs which in Paris will bring in 5 per cent. Therefore it gains interest at 2 per cent, and can afford to fix its forward *sale* at a lower price (i.e. a higher rate); 2 per cent per annum for three months = $\frac{1}{2}$ per cent. Hence the interest per £ = Fcs. 0.275.

Therefore the forward rate would be . $\frac{55.275}{55} =$ £1 for 55.27 $\frac{1}{2}$ French francs

The banker pays for spot francs . £ $\frac{100,000}{55} =$ £1,818 3 8

and will collect against his sale in three months (i.e. the client

will pay) £ $\frac{100,000}{55.27\frac{1}{2}} =$ £1,809 2 9

The difference of £9 0s. 11d. represents interest on the 100,000 francs in Paris—of which the client receives the full benefit. This amount it will be seen is 2 per cent per annum for three months (i.e. $\frac{1}{2}$ per cent) on the £1,809 2s. 9d. which, with the £9 0s. 11d., makes up the £1,818 3s. 8d. paid by the banker for Fcs. 100,000 spot, to prepare for his engagement to deliver three months later.

Let us consider another example. A merchant accepts a 60 days' sight bill for \$50,000. He has not this amount on his dollar current account, and wishes to fix definitely the sterling amount he will pay at maturity. He will hand to the presenting banker a cheque on New York in dollars in payment, and therefore he buys from his own banker \$50,000 for delivery in two months.

If London quotes spot dollars at 4.50 to the £, and the interest rates in London and New York are respectively 3 per cent and 1 $\frac{1}{2}$ per cent, then the forward rate will be 4.48875. If the acceptor does not adopt this course, he will have to pay at the rate ruling when the bill matures.

This important point is of immense practical value, and we will give still a third case.

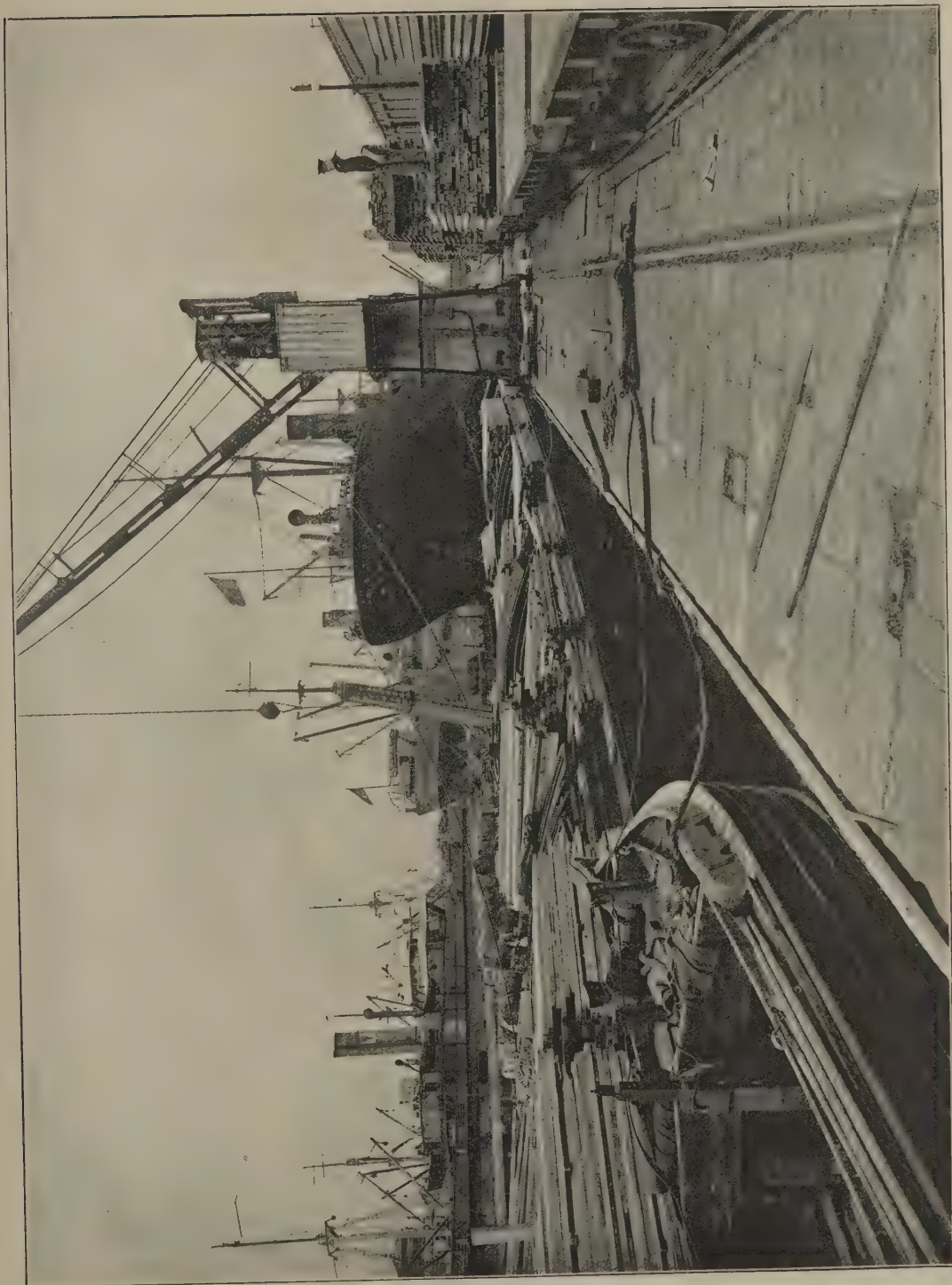
A timber merchant is the holder of a draft for 100,000 Swedish crowns payable in London in ten weeks' time. He does not desire to negotiate the bill, as he thinks he will be able to get better terms by making with his banker a forward contract. He is confident the draft will be met by the acceptors, and as (following modern custom) he will be handed a *banker's* draft on Stockholm for Sw. Kr. 100,000, he arranges to sell this draft to his banker.

If Swedish crowns are quoted at 16·80 to the £, and money in Stockholm is worth 4 per cent, and in London $3\frac{1}{2}$ per cent, then the forward rate will be 16·8175.

In actual practice these differences in earning

values are represented by the figure to be added to or deducted from the spot rate for each month of the contract. Thus, in these three cases the banker would arrive at his forward quotation *on the basis* of 9 centimes, $\frac{1}{2}$ a cent and Kr. 0·007 for each month of the forward contract.

In these examples the rate is fixed purely on an interest basis ; but the banker in his quotation would take a small profit in addition, and it might happen that another small difference would accrue from supply of and demand for forward exchange. An *active* market permits of cover of a forward sale by a forward purchase, and vice versa, and then the state of the market will determine the extent of the deviation from the "interest and profit" rule.



UNLOADING TIMBER AT MILLWALL DOCK

SECTION 39

Government Departments and the Business Man

HOW THE TRADER CAN MAKE USE OF GOVERNMENT DEPARTMENTS

CHAPTER I

INTRODUCTORY

To the average business man a Government Department is an unmitigated nuisance or at the best a necessary evil. The fact that a great part of their work is essential to the existence of modern commerce is overlooked, while the manner in which the individual business man can make use of their assistance is not generally known.

Historical Aspects.

The extent to which the commercial community is indebted to the activities of the Government in providing for the settlement of disputes through its courts of law, the regulation of the currency, weights and measures, and such matters is only to be appreciated by those who have studied the historical aspect of the relationship between the Government and Commerce. This forms one of the most interesting chapters of English history. It illustrates in a striking manner the swing of the pendulum in political thought. In mediaeval times the Government imposed minute regulations on the merchants in their dealings one with another, in particular with regard to matters affecting foreign trade; then followed the period when the doctrines of the Manchester school and the policy of *laissez faire* became ascendant; at the present day the tendency is once more strongly in favour of the Government's taking an active part in promoting the trade of the country.

This, however, is not the place in which to consider either the historical or political aspect of the matter. It is proposed in the present section to deal in a strictly practical manner with the nature of the assistance offered by various Government Departments to the business man and the manner in which the individual should proceed to obtain it.

The Function of Government.

The function of Government is to serve the interests of the community as a whole. It is therefore rarely the case that any direct assistance is given to the promotion of particular schemes.

Apparent exceptions to this rule are to be found in the large holdings by the Government in such undertakings as the Anglo-Persian Oil Company or the Suez Canal Company; in both these cases the explanation is to be sought in the nature of the activities of the concerns in question which are regarded as of special interest in relation to the defence of the Empire. For this reason the assistance that a Department can and does render is generally limited to providing information of various kinds, but in special circumstances financial aid is sometimes given, and in particular at the present time special provision is made to enable the business man to overcome the extraordinary difficulties with which he is faced in consequence of the abnormal economic conditions now prevailing.

The subject naturally falls to be dealt with under two main heads, that concerned with the collection and dissemination of information of various kinds, technical and otherwise, and that relating to the provision of financial assistance. The first will occupy Chapters II to IV, and the latter Chapters V to the end.

CHAPTER II

COMMERCIAL INTELLIGENCE

ONE of the first things that a person about to engage in export trade needs is early and accurate information about the conditions and requirements of the country with which his interests are concerned.

Before the Great War the importance to the commercial community of an adequate supply of information of this character was not properly appreciated in this country. Its collection was to too great an extent left to the individual, whose resources were generally inadequate for the purpose. A consular service existed, it is true, which was nominally charged with the service of trading interests. Its officers were, in practice, loaded with so many other duties that they could find little time, even if they had the inclination, to

devote to its needs. The organization of commercial intelligence was to all intents non-existent, and there was no central office in this country from which information on the needs and peculiarities of a foreign country could readily be obtained by the individual.

Department of Overseas Trade.

It was appreciated that if British trade was to recover its former position after the war, a more adequate organization for the assistance of business men was essential.

In 1917, accordingly, the Department of Overseas Trade was set up. This is a joint department of the Foreign Office and the Board of Trade. It is charged with the organization of a Commercial Diplomatic service in the especial interests of British firms engaged in the export trade. At the present time there are eleven trade commissioners covering various portions of the empire and thirty-four commercial counsellors or secretaries, who are located in all the more important foreign countries.

It was from the inception of the department realized that the great need of the exporter was accurate information as to the kind of goods a particular country requires, and as to the financial and general standing of the principal firms in that country interested in the same lines of goods as himself.

Collection and Distribution of Business Intelligence.

To meet these requirements the commercial officers are continually occupied in collecting information on such matters as contracts open to tender; special goods in demand; nature of the competition to be expected; special requirements of the local law as to customs, standards, etc.; local credit facilities; shipping and transport; local methods and prejudices in marketing—in short, every conceivable scrap of information which could be of value to the trader.

In order that the information so collected may be available in a convenient form to the business man in this country, there is a central office of the Department in Old Queen Street, London, S.W.1. This office is occupied with the collation of the information obtained from its representatives abroad and its distribution to those quarters where it can be of value. The importance of up-to-date information is thoroughly appreciated, and every endeavour is made to secure that information reaches the right quarter before it has become stale. A large part of the work of the Department is carried on by means of the press and through the post, but any business man who is faced with a particular difficulty can always obtain ready access to members of the Department for purposes of oral discussion. It is desirable to make an appointment before calling in person.

Board of Trade Journal.

Information of a general character, including particulars of any trading treaties or agreements with foreign countries, is published in the *Board of Trade Journal*, a weekly paper issued by the Stationery Office, price sevenpence. Use is also made of the ordinary press and in particular of trade journals, to which detailed information is regularly supplied by the Department. From time to time special reports are published dealing with the economic and trade conditions in particular countries. These reports, which are far from being ordinary blue books, contain a lot of extremely valuable information in an interesting form. They can be obtained through any bookseller, or a direct enquiry from the Stationery Office, Kingsway, will bring information as to whether a report has been published on any particular country. There is also a scheme of subscription which entitles the subscriber to all these reports as they are published. It is well worth the exporter's while to obtain the reports on any country in which he is interested, as in present economic conditions pre-war ideas on such subjects are apt to be most misleading.

Confidential Information.

Some of the information obtained by the Department is of such a character that to broadcast it by any of these means would be to destroy its value or possibly to confer on foreign competitors benefits intended for British traders; and in some cases it is of such a confidential character that it is impossible to publish it in this way.

For dealing with information of this character two special organizations exist, by means of which it can be sent confidentially and speedily to persons to whom it is likely to be of value.

Special Register.

In the first place there is kept what is known as the Special Register on which are entered the names and particulars of those British firms concerned in exporting goods wholly or principally of British manufacture who have applied to be placed on it. The list is classified in such a way as to ensure that only information dealing with the particular line of goods dealt with by a firm is sent to each firm. A fee of £2 4s. 6d. is charged to firms wishing to be entered on this register. This fee includes the subscription to the *Board of Trade Journal* to which reference has already been made. Applications for entry on this register should be addressed to the Comptroller General at the head office of the Department.

Financial Reports on Foreign Firms.

There is, secondly, a special organization for supplying firms in this country with confidential reports on the character and standing, financial

and otherwise, of firms in foreign countries with whom they desire to have dealings.

These reports are, naturally, of a very confidential nature, so that they are not sent direct to enquirers, but use is made of the organizations of the various Chambers of Commerce and Trade Associations and of the Federation of British Industries, to one or other of which organizations application should be made on the subject by anyone desirous of obtaining information in a particular case.

Trade Index.

The Department also maintain what is known as the Trade Index. This has been compiled for the use of the Department and its officers only, and is kept strictly confidential. It comprises an alphabetical list of all those firms in this country engaged in export trade, who have supplied the necessary information; an index of the particular lines of goods in which each firm is interested; a classified list of countries with details of the firms in this country who are engaged in exporting to each foreign country.

Any firm who has not received a request for particulars for the purpose of this index should apply for the necessary form to the Trade Index Section of the Department at the head office. This Index is altogether distinct from the Special Register which has been considered above, and no charge is made for inserting thereon the name of any firm which supplies the required information. A copy of that portion of the Index dealing with each foreign country is given to the commercial officers stationed there, to be used by them in supplying information to prospective customers. It will thus easily be seen that it is of real importance to a firm that its name should be on the Index.

British Industries Fair.

One of the activities of the Department to which great importance is attached is the promotion and organization of the annual British Industries Fair.

This is not, and is not intended to be, merely an exhibition to which all and sundry are invited. It is strictly a business affair limited so far as possible to *bona fide* trade buyers.

The present organization of this fair is to hold it in two centres at the same time, definite industries being allotted to each centre. The fairs so far held have been located at Birmingham and London.

In pursuance of the general policy of the Department, only firms carrying on a manufacturing business in this country can take part, and they can exhibit only articles of their own manufacture. Applications for space should be addressed to the Exhibitions Section of the Department, Old Queen Street, London, S.W.1.

In connection with the Fair a very elaborate catalogue is prepared, copies of which are circulated all over the world through the medium of the commercial diplomatic officers. It contains an index written in no fewer than seven languages. It has, therefore, a very definite advertising value. The fair itself is also extensively advertised through the same channels.

It may be added that the commercial officers have access to methods of publicity which are not at the command of private individuals.

Foreign Industries.

A valuable source of information relating to the kind of competition likely to be met with from local competitors in any country, the type of advertising employed and the sort of goods supplied by the foreigner for home consumption, is to be found at Nos. 7-11, Old Bailey, London, E.C.4. Here there is collected a large library of foreign trade catalogues and also numerous samples of foreign made goods, together with the fullest details in regard to such matters as prices, state of demand, etc. Additions are continually being made with a view to keeping the collection as far as possible up to date. An index of the contents of the library can be obtained on application to the Department, while the collection is open to all *bona fide* business men during usual business hours.

Patent Office Library.

Another library, unique of its kind, that is worth mentioning is that attached to the Patent Office, Southampton Buildings, off Chancery Lane, London, W.C.2. Here will be found a large collection of British and foreign books on all manner of technical and scientific subjects and also a number of catalogues of foreign firms. There are also a complete set of English and foreign patent specifications. It is open to the public free of charge.

CHAPTER III

TECHNICAL INFORMATION AND RESEARCH

BEFORE the Great War it was admitted in many quarters entitled to express an opinion, that the start which British trade obtained in the early stages of the Industrial Revolution, owing to the early development and adoption of machinery in this country, was rapidly being neutralized by the research work which was being carried on in many foreign countries with Government assistance.

In a scientific age, when a single invention may revolutionize a whole industry, it is essential to keep up to date in manufacturing methods.

Unfortunately research work is expensive, while the fact that it gives no immediate return for the money expended on it makes some manufacturers, who perhaps could afford to do so, reluctant to incur the necessary outlay.

Research, the head offices of which are situate at Storey's Gate, St. James' Park, London, S.W.1.

The activities of the Department are various, but are all directed to the improvement of industrial technique and manufacturing methods.



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Department of Industrial and Scientific Research.

In these circumstances a sum of £1,000,000 was voted by Parliament in 1919 for the purpose of encouraging Industrial and Scientific Research. The fund was handed over to an incorporated body known as the Imperial Trust, and is administered by a committee of the Privy Council, the department concerned therein being known as the Department of Industrial and Scientific

Research Associations.

In the first place they encourage and assist the institution of societies for conducting research into the problems of particular trades. These societies are registered as separate companies, as associations not intended for purposes of profit. They are usually financed by means of subscriptions and guarantees from their members, with the assistance of an annual grant from the Department. The object of the societies is to promote research

into the special problems of a particular industry with a view to the results of such research being made available for the benefit of the members, and, in some cases, of the public generally on such terms as may be arranged. There is commonly a restriction on the supply of information to foreign firms. They also frequently provide for the education of persons engaged in the industry and for taking out and exploiting on behalf of the members, patent and similar rights in connection with any inventions that may be made in the course of research.

There are already a number of such societies in existence, and since the benefit of belonging to them and thus enjoying what is in effect a pooling arrangement for an expensive though essential part of a manufacturer's business, is so obvious, an enquiry of the Department as to the existence of a society dealing with a particular trade in which he may be interested, will well repay the ordinary manufacturer, and especially so the small man who could not otherwise hope to secure for himself the practical benefits of science.

There are certain aspects of research which, though of vital importance to the community at large, are not of sufficient interest to any particular trade to lead to a special society being formed to deal with them. In order to ensure that this ground is properly covered, a number of special Boards have been specially instituted by the Department itself. These deal with such matters as fuel research, buildings (material and construction), and food. Reports of their activities are published from time to time and contain much valuable information.

National Physical Laboratory.

A further branch of the Department known as the National Physical Laboratory, is situate at Teddington, Middlesex. This body undertakes the testing of materials and scientific instruments, such as clinical thermometers, and also research work into special problems, such, for example, as the stability of buildings and bridges, improvements in methods of cold storage, etc. Communications should be addressed to the Director at the Laboratory, from whom particulars of the terms charged, which are based on the work done, can be obtained by anyone desirous of securing the services of the laboratory in connection with a particular problem.

Museums.

The average business man is apt to think that money and time spent on artistic education is, so far as he is concerned, money wasted, and few imagine that there is any profit to be sought in the contents of the numerous museums that are to be found in all our large cities. In truth, however, such institutions as the Victoria and Albert

Museum, South Kensington, London, can be of the greatest value to him. The charge is frequently brought against British manufacturers that, while in industrial and factory technique they may have little to learn from others, in matters of design they are far behind their competitors. That this is to a large extent true must be admitted by an unprejudiced observer who compares their products with those of some foreign countries. Some of the collections in the museum to which reference has been made, are very complete and comprise numerous examples of English and foreign wares, and even a cursory glance will convince an open minded manufacturer that an article can both be well made and be of good design. Again, it is notorious that consumers in foreign lands are apt to be very conservative in regard to articles intended for domestic use and not unnaturally prefer one of a type to which they are accustomed. For these and other equally obvious reasons it can safely be said that a visit to a good industrial museum in the company of those members of the staff who are responsible for designing his goods, will be well worth the while of any progressive manufacturer dealing with articles of everyday use or ornament.

There are also a number of similar institutions which are intended for more technical needs. Such are the Geological Museum in Piccadilly and the Science Museum at South Kensington. The latter is especially intended for the exhibition of the work of inventors and designers in matters relating to scientific and engineering practice, and many examples of the latest improvements in machinery will be found there.

Agriculture.

Although the fact is sometimes lost sight of, agriculture remains the largest of our industries, especially when the number of firms engaged in the manufacture of agricultural machinery is also taken into consideration. It is, therefore, necessary in any complete survey of the present subject to take account of the activities of the Ministry of Agriculture and Fisheries, whose head office is in Whitehall, London, S.W.

To many, this Department is chiefly known by reason of the restrictive orders which from time to time have to be issued in the interest of the industry. There is, however, in addition, an elaborate organization, including experimental farms for conducting various experiments, for the supply of information of all kinds relating to agriculture and the fishing industries; an extensive bibliography on such subjects has been published and is obtainable from H.M. Stationery Office. Any person interested in a particular problem will generally save a lot of time and trouble by first ascertaining from the Department whether any special publications dealing therewith are in existence.

CHAPTER IV

THE DOMINIONS AND COLONIES

ALTHOUGH, as has been seen, the Department of Overseas Trade includes the Colonies in its scope, there is also another organization which specializes in information relating to the Dominions and Colonies.

Each of the Dominions supports in this country a High Commissioner, that for Australia being housed at Australia House, Strand, London, W.C.2; that for the Union of South Africa in Trafalgar Square, London, W.C.2; that for Canada in Trafalgar Square; and that for New Zealand at 45 Strand, London, W.C.2. In addition to carrying out certain important political functions, these offices are also general information bureaux on all matters relating to their respective countries. They are also the media through which contracts with their governments are arranged. They usually advertise in English papers details of any Government contracts open to tender, and act generally as the commercial representatives of their respective dominions. In many cases individual provinces or states maintain separate agents, from whom information can also be obtained.

Crown Agents.

A similar function is performed on behalf of the Crown Colonies by the Crown Agents, whose offices are at 4 Millbank, Westminster, London, S.W.1.

The Colonial Office deals almost entirely with political matters, and does not, as a rule, undertake to supply information on commercial matters to individual members of the public.

CHAPTER V

FINANCIAL ASSISTANCE

A DISCUSSION of the nature of the financial assistance which the Government is prepared in certain cases to give to private enterprise falls conveniently into two divisions. The first deals with that sanctioned by legislation passed prior to the Great War, which can accordingly be regarded as a part of the normal economic organization of the State; the second, that due to post-war conditions which, though temporary in their inception, are likely to be continued until the normal channels of credit are once more working smoothly, a time which at present seems still remote.

The two departments mainly concerned with the first category are the Development Commissioners and the Forestry Commissioners, the activities of which will be dealt with separately.

Development Commission.

The office of the Development Commission is situate at 6A Dean's Yard, Westminster, London, and any communications should be addressed to the Secretary of the Commission there.

The purpose for which the Commission was set up is to promote the economic development of the United Kingdom and the improvement of roads. With a view to this they are empowered, in approved cases, to make advances, which may be either by way of grant or loan, or partly one and partly the other. Advances can be made only to the following classes of bodies: Public authorities; universities; colleges; schools, or similar institutions; or to an association of persons or a company not trading for profit.

The facilities offered by the Department are not therefore, of great benefit to the business man pure and simple, but indirectly they can be of great assistance where it is desired to set up a non-trading body for the purpose of carrying out some work the benefits of which will ultimately be shared by the general industry of a district.

The purposes for which money can thus be advanced are limited to the following—

(a) To aiding agriculture and rural industries by promoting scientific research in the science and practice of agriculture, including the organization of that industry on co-operative lines; and generally for any purpose calculated to develop these industries. Agriculture it may be said is, in this connection, defined as including horticulture, horse-breeding, cattle-breeding, bee-keeping, cottage industries, and similar things.

(b) Forestry. In this respect the functions of this body have to a great extent been superseded by the commission next to be considered.

(c) Reclamation and drainage of land.

(d) Rural transport, including light railways but not roads. Advances in regard to roads can be made only to county councils and highway authorities. The duties of the Commission in this regard are now carried out by the Ministry of Transport.

(e) Construction and improvement of harbours.

(f) Improvement of canals and inland navigation.

The terms and conditions on which advances will be made are the subject of negotiation in each case. In the first instance any person or body desirous of obtaining an advance should place themselves in communication with the Secretary of the Commission.

Forestry Commission.

The offices of the Forestry Commission are situate at 22 Grosvenor Gardens, London, S.W.1.

The Commission is empowered by Act of Parliament to make advances by way of either loan or grant, or partly the one and partly the other, to any persons for the purpose of afforestation of land

belonging to them. The terms and conditions of the advance are the subject of negotiation in each case.

It is important to notice that there is in this instance no limitation in regard to the persons to whom advances may be made. There is thus no reason why an advance should not be obtained in respect of an afforestation scheme which is part of a purely business enterprise. The only criterion in considering an application, which should in the first instance be made to the Secretary, is the extent to which the proposed work will assist the afforestation of this country.

CHAPTER VI

EXTRAORDINARY PROVISIONS

It was at an early stage after the armistice in 1918, appreciated that the normal facilities for obtaining credit would not, for some years to come at least, be sufficient to enable the trader to overcome the special difficulties arising from the economic chaos which ensued as a consequence of the war. A scheme was, therefore, adopted whereby the exporter might be assisted in financing his business and the manufacturer could be helped in his endeavour to keep his factories employed.

Although the scheme as an economic measure must be regarded as a whole, its administration is divided between two departments, and it is therefore necessary to consider separately that part which relates to the financing of foreign trade and that which concerns the manufacturer. Both parts have one characteristic in common inasmuch as in no cases are advances actually made out of public money; the scheme depends on a system of guarantees.

Export Credits.

The former, which is commonly known as the Export Credit Scheme, is administered by the Export Credits Branch of the Department of Overseas Trade, whose office is at 73 Basinghall Street, London, E.C.2.

This scheme extends to dealings with practically every foreign country except Russia.

The principle on which the scheme is based is to guarantee the payment of bills drawn against the shipment of goods. It is applicable only where the goods to be shipped are wholly or mainly manufactured in this country.

A small commission is charged to defray administrative expenses and to form a reserve fund to meet any losses that may be incurred in the course of business under the scheme.

The guarantee offered is of two kinds. It may be a guarantee of a specific credit to cover an individual transaction or it may be what is known as a general guarantee. The procedure in respect

of each kind is different and must be considered separately.

Specific Credits.

In regard to guarantees of specific credits, the proposal must be put forward through the exporter's bank to the Department. It is not necessary that the bill to be guaranteed should have been accepted by the importer at the time the proposal is put to the Department, but if it has not then been accepted a letter from the importer's bank guaranteeing that it will be accepted when presented must be furnished.

The proportion of the bill which can be guaranteed varies according to the circumstances. If the proposed credit does not exceed one year, the guarantee may be for the whole amount of the bill or such less amount as may be desired. If the period of credit is more than twelve months only 85 per cent of the full amount can be guaranteed and the exporter must himself bear the whole of remaining risk.

The importer is usually required to provide security that the bill will be paid in due course. It is not essential that the value of this security should be the full amount of the bill, and in some cases the Department will guarantee a bill even where no security at all is put up. The security may consist of banker's guarantee or deposit of currency. If the amount of the security is not equal to the amount of the bill the exporter is required to accept some of the risk himself and must allow the Department to have a right of recourse against himself for a definite proportion of the amount of the bill, in the event of the bill not being paid when it falls due. The extent of this proportion varies according to the proportion of the amount of the bill that is guaranteed. If the whole amount is guaranteed the exporter must be prepared to answer for just over half, $57\frac{1}{2}$ per cent to be accurate, of so much of the bill as is not covered by the security put up. If 85 per cent or less is guaranteed the exporter must accept responsibility for one-half of the amount not secured.

General Credits.

The necessity of submitting each proposal to the Department before closing with an offer makes the foregoing scheme of comparatively small value to any firm which is endeavouring to carry on a general trade in any particular country. In order to meet their requirements the Department will also arrange to give to approved firms of exporters a general guarantee for any number of credits up to a specified amount. The proposal for such a guarantee must specify the country or countries in regard to which the guarantee is desired. Only short credits can be guaranteed under this part of the scheme and in no case may they exceed twelve months. Proposals must, as in the former

case, be put forward to the Department by the exporters' bank, but there is no need to refer individual transactions to the Department and consequently offers can be closed with on the spot, without delay. All transactions coming under the guarantee must be notified to the Department as soon as possible after they are arranged.

In regard to all bills coming under a general

assume alarming dimensions, after the end of the trade boom in 1919, it was realized that any measures dependent on unemployment relief works or any system of unemployment pay were at best palliative, and that the real solution of the problem could be found only in a scheme that would enable trade to recover its normal activity. The contraction of credit which followed the period



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guarantee of this kind the Department will always reserve the right of recourse against the exporter for 57½ per cent of the total amount of the bill.

Trade Facilities Act.

So far the facilities offered to the exporter have been considered. It remains to deal with the circumstances in which assistance is given to the manufacturer who finds himself unable to obtain through the ordinary channels sufficient funds to enable him to undertake capital expenditure in extending his business.

When the problem of unemployment began to

of high prices naturally made it difficult to obtain capital by means of the ordinary machinery of the money market. A scheme was accordingly promoted and embodied in an Act of Parliament which enabled the Treasury, in approved cases and upon such terms as might be agreed, to guarantee the payment of the principal and interest of any loan that might be floated, provided that they were satisfied that the object to which the money when raised was to be applied was one calculated to promote employment in this country. Only loans intended to be expended on capital undertakings in connection with the purchase of

articles in this country can be guaranteed under these powers.

It is thus important to distinguish this scheme from that considered previously. Under that scheme the transactions in regard to which a guarantee could be obtained were the normal business dealings of a man engaged in exporting goods from this country, the object being to enable him to get round the difficulty of arranging credits with foreign countries in the face of the enormous fluctuations in the rates of exchange. The present scheme has for its object the employment of British workmen. It is immaterial for what part of the world the goods purchased are ultimately destined provided they are to be manufactured in this country. On the other hand, loans intended for what may shortly be called working capital cannot be guaranteed, nor those to be applied wholly or in part in discharge of existing liabilities; but only loans raised for the purpose of capital expenditure. The reason for this restriction is obvious when the object of the Act is borne in mind. The effect on unemployment of money spent on the provision of machinery, factories, and such things is not exhausted when the factory has been built. Factories in turn require hands to work them, and the effect of such expenditure is therefore cumulative and more lasting than that of money spent on goods to be exported in the ordinary course of trade.

The powers contained in the Act were originally limited to a period of one year from the passing of the Act, within which the guarantee had to be given. It has, however, since been extended, and it seems probable that so long as the existing economic situation persists the scheme will continue to operate.

The administration of the scheme is in the hands of a subdivision of the Treasury, the offices of which are situate at 16 Finsbury Circus, London, E.C.2. The Department is assisted by a committee of business men by whom all applications are scrutinized and a guarantee is given only on their recommendation. Applications should be

addressed to the secretary, from whom full particulars may be obtained. Information on the following matters, in as complete a form as possible, should be furnished with the application: a general outline of the scheme showing the amount and intended purpose of the loan; a full statement showing the amount of work which the scheme will provide, to be given in as much detail as possible and to include particulars of the industries affected, how soon after the money is raised the work can be started and how long the work will last; if practicable, detailed statistics of the number of men to be employed in each industry; the term of the proposed loan and the nature of the security offered, showing particulars of any charges that will rank in front of it; Balance Sheets for the last five years, with, if necessary, supplementary information as to the amount of profit made after meeting all charges which would rank before the interest on the proposed loan; an estimate of the additional income the proposed work is expected to earn; estimates as to the cost of the works proposed; a statement how the interest on the loan will be defrayed until the work begins to earn an income; details of any formalities that will be necessary before the loan can be floated, i.e. any Parliamentary sanction, consent of debenture holders, shareholders, etc.; together with an account of any steps that have been taken to raise the money in other quarters, and the nature of the terms, if any, that could have been obtained.

It is worth emphasizing that the Treasury has no power to lend any money under this scheme; it can only guarantee the terms of a loan to be raised from other sources. The Treasury will, in agreeing to give the guarantee, indicate the quarter whence the money is to be obtained. The guarantee cannot be given in respect of ordinary or preference shares but only for genuine loan transactions.

A fee intended to cover the administration expenses of the scheme will be charged, the amount of which varies according to the circumstances.

SECTION 40

Strikes and Lock-outs

By R. W. HOLLAND, O.B.E., M.A., M.Sc., LL.D.

THE general idea of the non-industrial class seems to be that there is something unorthodox and even illegal in a strike or a lock-out. A normal strike, however, is usually quite legal, where by a strike is meant the simultaneous cessation of work on the part of workmen *following on the legal expiration of notice*. The simultaneous cessation of work involving a breach of contract on the part of workers is still a strike, but it is an illegal one, and in such a case the men place themselves in the wrong to commence with, thus weakening their own case. There is nothing contrary to the rules against restraining trade to prevent a man terminating his contract of service, and, consequently, nothing against a thousand men exercising this right.

Objects of Trade Unions.

It follows that individuals as such will not usually decide upon simultaneous action unless they are working in conjunction or combination with each other. A combination of persons having for their object the regulation of trade and the consequent interference with the liberty of action of individuals was formerly an illegal association, since its objects were in restraint of trade and contrary to public policy. This old common law view has passed away, and a trade union having for its objects the "statutory objects," set out in Trade Unions Act Amendment Act, 1876, namely, the regulation of relations between workmen and masters, workmen and workmen, masters and masters; the imposing of restricted conditions on the conduct of trade or business; or the provision of benefits for members is looked upon as a legal association. Such an association may have other objects than the statutory ones, and to-day registration as a trade union is the true test of whether an association is entitled to that name or not. For example, a friendly society regulating its members' employment makes it into a trade union, and it may be registered as such, but it still remains a friendly society. It should be remembered that trade unions are created by common law; they are merely regulated and placed on a legal footing by statute.

Notwithstanding the fact that the trade union has been legalized, it is a lawful or an unlawful association according to the validity or otherwise of its rules. By far the commonest case of

invalidity relates to the provision as to strikes. Thus a provision in trade union rules giving power to a committee of the union to *compel* men to strike or to penalize them for not striking is illegal as a restraint.

Restraint of Trade.

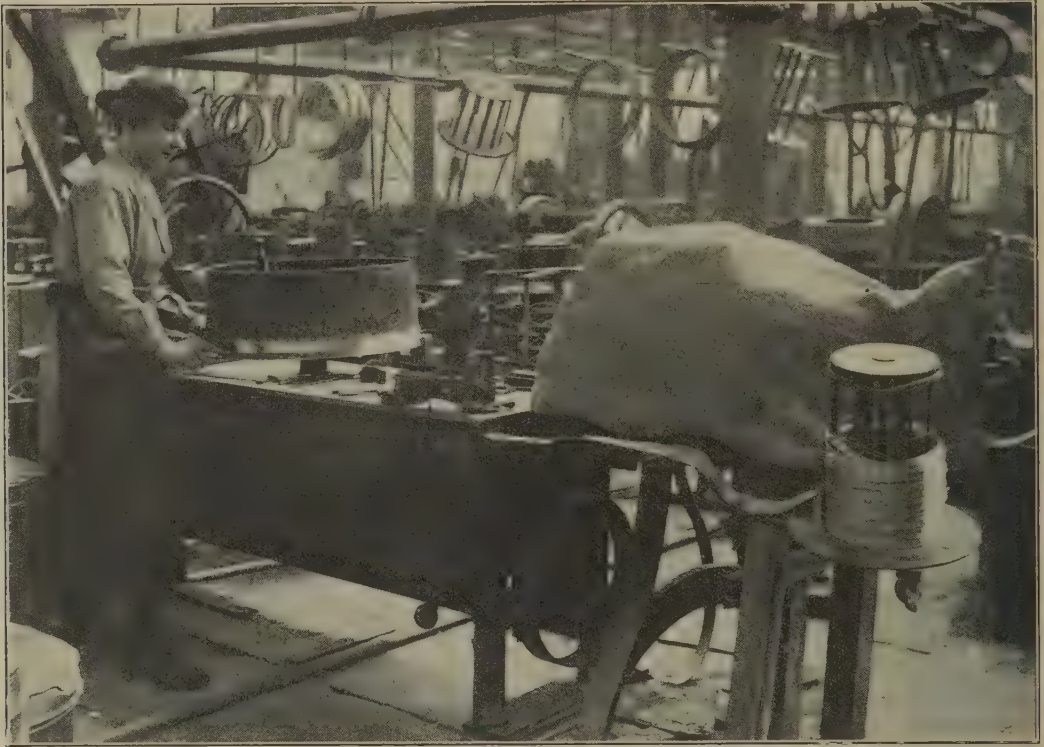
Any contract interfering with contractual relations was deemed to be illegal and void at common law. A person is supposed to have that freedom which is necessary for a man who desires so to conduct his life as to be in a position to provide food and clothing and shelter for himself and family. Primarily there is no right in any individual to interfere in this matter, and any agreement made will be looked upon as contrary to public policy if it takes away his right. The loose term "public policy" has changed its meaning with the advance of commerce, and where formerly agreements between workmen relating to their trade would be looked upon with suspicion, during the past fifty years it has been recognized that collective bargaining is useful not only to the worker as an individual, but to the community as an active instrument of social progress. In consequence the doctrine of restraint of trade has almost disappeared, and contracts which before the Trade Unions Acts would have been void, may now be valid. The effect of the Act is not necessarily to create legal rights. This would be best illustrated by reference to a trade combination which had for its object the control of prices and the restriction of output of its members. One of the conditions agreed to was that after a certain output was reached, profits on any further output should be paid into a pool out of which a certain percentage previously agreed to was to be paid to any member whose output in any month was less than agreed upon. Such a contract was invalid at common law, and therefore could not be enforced, but the combination was held to be a trade union, and the court was unable to grant relief against the restraint.

It has been mentioned that a strike is perfectly legal where no contract has been broken. If, on the other hand, the workers "down tools" without serving the recognized notice or otherwise lawfully terminating their contract, the strike is illegal, and a trade union having engineered such a strike under any of its rules has done something which is illegal. Further, maintenance of

strikers who have broken their contract is illegal, unless the contract has already expired. There is no harm in giving strike pay after the contract has expired, even where the men refuse to enter into new contracts. The continuance of the strike is nothing more nor less than the refusal on the part of the workers to enter into a new contract of service, and if it is lawful for one man to take up this position it is lawful for many simultaneously.

has only to give and serve the week's notice. It is immaterial that he may have the desire to coerce or injure; in other words, a man cannot be called upon to give his reasons for doing an act which he is legally entitled to do.

If one party persuades another to break a contract the injured party is entitled to damages from the person interfering. Some years ago a singer entered into a contract to sing at a certain



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Sympathetic Strikes.

Where a body of workers has no direct interest in the subject of dispute, and where, in order to assist the workers on strike, either by example or by bringing pressure to bear directly or indirectly on the employers concerned in the dispute, the workers in question agree to withhold their labour from their own employers, the strike is said to be a secondary or sympathetic one. Whatever the class of strike the same principles apply, and the test of legality or illegality is quite simple. If an employer is entitled to terminate his employee's contracts by giving a week's notice, or if a worker is entitled to leave his work on a similar notice, he

theatre and nowhere else for a given period. Another manager persuaded her to break her engagement. An action was brought against this manager, and it was laid down by the Court that an action lies for procuring a breach of contract, and in particular for doing such acts as amount to persuading a servant to leave the service of her master. In a later case it has been laid down very definitely that a man who induces one of the parties to a contract to break that contract, "intending to injure the other party to the contract, does an actionable wrong."

Since the fourteenth century, during which the Statute of Labourers was passed, an action could be brought against any one enticing a servant

away from the master, but this could apply only to the actual period of service and not after it was terminated.

To the rule that the procurement of a breach of contract is actionable has been added an exception in favour of those engaged in a trade dispute. By the Trade Disputes Act, passed in 1910, it has now been laid down that where the breach of contract is procured in furtherance of a trade dispute no action will lie. This can be put into a concrete case in order to make it clearer. Let us suppose that Bricks, the builder, has laid down certain rules of employment that his men who are trade unionists refuse to accept. The men hand in their notices, which duly expire, and Bricks immediately fills their places with non-union labour. Picketing and persuasion having failed to bring out the non-union workers, the trade union secretary then attempts to deprive Bricks of his raw materials. He approaches Timber & Co. and suggests that Timber should withhold supplies. This suggestion is refused, so the secretary approaches Timber's employees, asking them "to down tools" unless Timber & Co. agree to withhold supplies of timber from Bricks. Timber & Co. are under a contract to supply Bricks, and they refuse to be intimidated, and in consequence Timber & Co.'s employees "come out" without serving notices. The position is that—

1. Bricks can sue Timber & Co. for failure to supply timber unless there is a strike clause in the agreement.

2. Timber & Co. have rights against their employees for ceasing work without notice.

3. Timber & Co. cannot now sue the secretary of the trade union for persuading their men to down tools in furtherance of the union's dispute.

4. Bricks cannot sue the secretary for procuring breach of Timber & Co.'s contract to supply timber.

In the above case the secondary strike is illegal, but had the men handed in their notices and duly served them, the strike would be quite legal.

Lock-out.

Just as employees may refuse to enter into contracts of service so may an employer refuse

to take a person into his employ. If this right holds good in respect of an individual worker it applies also to workers in bulk. If, then, an employer serves notice to his workers to the effect that their contracts of employment will terminate on a given date, and that they will be renewed only on certain conditions, the employer is acting quite legally. If this step is taken in conjunction with other employers the position is not altered. If the workers do not agree to the conditions set out, they will find, on presenting themselves for work, at the end of their notices, that the works are closed or that they are "locked out." If the lock-out is by arrangement throughout the trade, it is a general "lock-out," and will probably be terminated only upon agreement between the organized employers and the organized workers, both organizations being recognized as trades unions.

Trade Union Law.

A few remarks on trade unions may be useful. Such associations become a legal entity by registration, and they can be sued under the Trade Unions Acts. Their purposes are avowedly in restraint of trade, but the Acts prevent the members being liable for conspiracy. The restraints, if within the objects laid down for trade unions are lawful but not so that the Courts will enforce agreements which would be unlawful but for the Trades Unions Acts. Political objects may be furthered, but a separate fund must be maintained, and any member may contract out of the political side of the union's activities. The trade union may apply its funds for any *lawful* object for the time being authorized by its rules. The presence of illegal or *ultra vires* rules does not make a union wholly illegal, and it can still be sued in its registered name. If a rule is in doubt the judge will decide whether it is legal or illegal, and an illegal rule does not necessarily make the union an illegal association. The business man should remember that his own organization, if it imposes restrictive conditions on the conduct of business, or regulates relations between himself and other employers, or provides benefits for its members, is a *Trade Union*, even although it may not be registered as such.

SECTION 41

Mail Order Business

By ALBERT E. BULL

CHAPTER I

FIRST CONSIDERATIONS

THE idea of doing business direct from the warehouse to the home is attractive to a great number of people at the present time for several reasons.

It can be commenced with comparatively little money.

It does not require an important or central position in one of the main thoroughfares of a town, as does a retail business of equal importance. In consequence it is unnecessary to spend much time and money over complicated questions of leases, or in endeavouring to obtain premises for which there is terrible competition.

It permits a man to stock as many or as few lines as he likes, and minimizes risk of loss through unsaleable stock.

It does not require a staff of special ability in all departments, and does not make demands upon the staff for initiative and individuality.

It has no limits to magnitude, and can grow as rapidly as the public respond; premises for this kind of work can be held anywhere and are easy to obtain. With reasonable foresight any rapid increase in trade can be arranged for.

These are some of the reasons why the method of trading is popular, and they could be extended almost indefinitely, but over and above all these there are two strong reasons that outweigh others. These are: (1) the method presents the cheapest and swiftest way of building a brand with a small capital; and (2) this is an age of advertisement and the minds of the trading public are attracted by any form of business building through publicity.

Kinds of Mail Order Businesses.

Mail order business falls naturally under three heads—

(1) Part of the ordinary system and routine of a retail concern.

(2) A special department of a retail business.

(3) A special business in itself.

The first two may seem to be the same. The difference, however, between them is really very great, for it is a difference of intention rather than of acts.

Thus a family staying at Paignton for the summer holidays become convinced that there is no tea they have ever tasted to compare with

Wickin and Waite's famous blend sold by that enterprising Paignton firm. When they return to London they still send to Paignton for their tea.

Now Wickin and Waite, excellent men and skilled grocers as they are, have never thought much of mail order business as such. They are out to do the ordinary local trade, but when chance and good repute bring them trade like this they take it gladly, and with their usual business efficiency look after their customers so studiously that they retain the custom for tea at Herne Hill long after a more indifferent firm would have lost it.

In this case mail order business is part and parcel of the usual system by which every customer is well looked after, and is not to be regarded in at all the same light as the special effort of a retailer who makes it a department.

Similarly the trader who advertises special lines of goods with the intention of attracting buyers to his shop, is quite glad to receive orders by post, for every trader knows the cumulative value of all business results.

But it may so happen that the advertiser would be greatly disappointed if all the responses to his publicity came through the post, and the only articles he sold were those that were specially indicated in his public announcements. The object of the advertisement might be defeated. Indeed, the trader might be put in a difficult position having included some lines of which his stock was low, intending to sell on the first-come-first-served method.

Apart altogether from this kind of business in which orders by post are welcomed as one of the results of skilled trading, there is such a thing as the retailer setting out deliberately to work a department that shall stand its own expenses and go on its own feet in this work.

The nature of this department differs. In some cases it is limited to one or two lines, in others it covers every article that is stocked in the ordinary business, and especially every article that is advertised.

The Wide Range Business.

Where a firm has a department for doing a post business in all articles stocked, the general policy of advertising should be reviewed in relation to this section of trade. This is not at all times an easy thing to do, as too much emphasis upon the postal appeal of the advertisement may take away

from the chief object in view, namely, drawing actual customers to the shop.

There are many firms who do a very successful general mail order business from a retail establishment, and by dint of practice succeed in putting out publicity matter that serves the double purpose of drawing customers to the shop and orders by post. But it is here recognized that in attempting to work on these lines a trader may easily fall between two stools and damage the drawing power of his advertising matter for both purposes.

The retailer with an existing business is often the very best suited trader to enter the mail order trade. He has premises, he is accustomed to commercial acts, he is able to buy to advantage, and knows how customers expect to be treated.

But in its final and fullest development the mail order business has practically very little in common with retail trading.

The mixed trade is recognized here, because it forms a link that may be useful in any development. But sooner or later the retailer will discover that there comes a time when he must put a limit upon his mail order section, or cut it adrift from his general business so as it can be run as an entirely separate branch, offering its own ranges of goods and bearing the cost of its own specialized advertising.

Some retailers have done this with great success. They may offer the goods they earmark for mail orders over the counter in the ordinary way of trade, but to all intents and purposes the two business enterprises are worked apart from each other.

Those retailers who do a national trade in one or two special lines, and a local trade in general goods, are practically two firms trading as one. The businesses are of different nature and require different treatment. In this postal business they may be reckoned as mail order firms pure and simple.

Essential Difference Between Retail and Mail Order Business.

The retailer depends upon being topical, and novel in his display. His shop must be fresh and contain the latest goods.

The mail order business, on the other hand, gains its chief success by constant adherence to one unvarying quality, if possible at one unvarying price, the goods being marked with an easily recognized description, so that the buyer in September of this year may be able to rely upon getting the same article he got in March of last year.

In advertising, the object of retail publicity is to draw buyers to the shop; in mail order business, to keep their attention on the article.

It is a recognized conclusion that advertising is rarely profitable unless it has a central object. No

matter how diffuse and scattered the methods, or by what varying means the object shall be attained, unless it can bring the mind of the public to one central idea it fails.

A retailer has that idea in view in his shop. He seeks to get Mr. Jones and Mrs. Smith to enter. It is for their convenience that he has his shop in Market Street where the crowd is great, rather than in a distant suburb which few people pass. He often pays heavy rent for cramped and awkward premises in order that the shop may be in an accessible spot.

His advertising matter is only partly successful if the post and the telephone alone bring him business. Relying upon the deep-seated love in human nature for trading, he reasons, "Let me get Mr. Jones to come here to buy his shirts, and I will sell him collars and gloves as well"; or, "Let me get Mrs. Smith to come here to buy a blouse and I may sell her an evening dress before she leaves."

With his knowledge and experience of human nature he may be prepared to take risks. He may pay away the profit on the shirt and the blouse to the newspapers for advertising charges, in order to get the profit upon the other business that will result. Obviously the trader who only buys his advertised lines by post is not giving him the trade that he sets out for, the trade that is necessary to pay the expenses of his heavily-rented premises.

The mail order advertiser is not able to proceed on the same lines. His centre of interest and attraction cannot be his premises (which are possibly in a back street), he does not want callers (they would most likely embarrass him). That centre is the actual goods themselves.

Hence he is out to establish a brand, to have an easily recognized distinguishable article, always the same and calculated to bring repeat orders.

The retailer need not make a profit on the article he advertises. The mail order trader must do so. One can offer goods that will not be repeated—that may even be cleared out in an hour. The other courts disaster if he cannot keep up a constant supply of his advertised brand.

Some reader will object here and be able to cite cases to prove his objection. It is necessary in a work of this kind to generalize, but there are always exceptions. Here is one—

A mail order firm advertises a single line of undoubtedly good value, at almost cost price, with an ulterior object in view.

Thus Jones & Watson offer their fountain pen post free at 2s. 6d. It is an excellent article and proves to be well worth the money. With the cost of advertising added, Messrs. Jones & Watson lose money on every pen sold.

But every buyer of a pen, or every enquirer about it, is sent a list of other goods, is duly carded, and "follow-up" communications are sent

to him about more profitable lines till business results or the "prospect" is abandoned.

Now in this case the fountain pen is itself a part of an advertising system, and its sale is not the ultimate intention of the firm. It is a means of procuring names, and probably the means the firm has found to be the best and cheapest of selling the goods on which profit is made. So this exception rather proves the rule than otherwise.

Another difference between the retail shop and the shopping by post business is that they are based upon two entirely different instincts in human nature. One is the deep-seated habit of trading, the other is the contented reliance upon a proved fact.

The shop repeats the history of commerce from earliest times; the two people, buyer and seller, face each other and barter. Women may be truer to the tradition than men but all of us understand it. As long as human nature remains as it is, the store, shop, or market will remain, and goods, prices, and values will be compared; novelty and fashion will make their appeal and the human instinct for personal dealing in barter will have its place.

The mail order dealer relies upon the other instinct, born of the needs of a busy age. We are not all of us good at argument or comparison or fond of trading, but when we know from experience that "Rundle's Tea" is good and "Dibley's Breakfast Oats" are reliable, that "Marmake's Cigarettes" smoke pleasantly, we keep ordering them.

The sound mail order man plays up to the latter instinct. He wants the first order, but more than that, he wants repeats. Experience tells him that £100 carefully spent in publicity may do well if it brings back directly £100 in cash. If this were the end of the transaction, he would lose money. His hope of profit is in the after consequences.

The mail order dealer really belongs to that increasing class of traders who hold that it is more effective as a business policy to create a brand and to educate the public into demanding it, than to search out the individual tastes of buyers and try to satisfy them.

Variety or the Single Article.

It is here that one important subject should be considered—that of variety.

Some houses that cultivate a shopping by post trade send out quite lengthy price lists and deal in a large number of articles with apparent great success. Others, while limiting themselves rigidly to one line, have many varieties of sizes, shapes, and colours within that limitation. Thus a maker of underwear for men will be able to meet the needs of customers of any height or girth.

Variety in this business can easily be a great danger to the beginner, and it is advisable, if

possible, to keep it within the narrowest limits, at all events until a connection has been formed and the trade has naturally developed.

The point is raised here because of an important trading fact. The wider the variety offered the nearer the business gets to that of the ordinary shopkeeper without the shopkeeper's advantage of the well-equipped shop and salesmen. Let the buyer be led into wide ranges of varieties and it is but a step further for the buyer to decide to go where the goods can be seen and handled. The cumulative effect of years of advertising would be to tend the mind toward the trading that the single warehouse cannot compete in. The teaching instead of being toward fixing a brand in the memory would be to scatter interest and attention.

The beginner is apt to be led astray in this respect by taking pattern from American houses and reading their literature. These are excellent in their place, but demand the circumstances that they suit.

Quite probably the Americans understand the mail order business rather better than the British do (that is the form of the business that suits their own continent), and they have built up a number of highly successful organizations and issued a great deal of excellent literature that should be studied here, but not always adopted.

Mail order business in the United States assumes dimensions which, compared with the figures we can show, are almost staggering.

This may seem to be a consequence of business skill. It is not. It is a result of geography. The conditions of the two countries are widely dissimilar, and the British trader who takes an American business as his model will not proceed very far without discovering the fact.

America is a land of wide distances; Great Britain a compact and small island. In the States large numbers of prosperous and even wealthy buyers are far removed from shops of any size, and cannot "drop in somewhere for an hour's shopping" when the mood takes them.

The elaborate price list is the obvious way of catering for such trade, and the big store on Broadway or in the bustling centre of Chicago neglects one of its best opportunities if it fails to represent to the fullest the whole range of goods it offers.

"Fire-side shopping" is a very real description of business in America, for in thousands of lonely spots through long periods of the year it is the only kind of shopping that is possible.

In our own country the circumstances are entirely different. There is scarcely a home in almost any part of England that is not within reach of a market town, where a very wide range of goods may be examined.

The advertiser must always remember that beyond the primary consequence of his publicity there is a certain educational consequence. If

his warehouse is in Leeds and his advertisement is read in Cardiff, the ultimate effect of that advertisement can be to increase the buyer's willingness to write to Leeds for certain goods, because those goods are unique and special, or to arouse in him a scattered and diffuse interest in variety that can easiest be satisfied by a call at a Cardiff shop.

The American advertiser runs no such risk. He is aware that the reader of his list in some distant

"I have £3,000 capital and intend using this in the establishment of a shopping by post business. I do not expect to draw anything from profits for the first one or two years and am content if, at the end of that time, the concern has rounded its corner and shows a profit on trading."

The second case is that of a young man of ideas, of hopeful temperament, and of some knowledge of his fellow humans, with experience



Photo

SECTION OF MAIL ORDER DEPARTMENT
(Catesbys Ltd.)

Keaseys Ltd.

retreat in Arkansas or Ohio may have a village store near by; but he is bringing the great floors of his emporium to the lonely farm through his list and, by comparison, the village store will not harm him.

Two Expectations in Mail Order Business.

People go into this business with all kinds of ideas in their minds as to the speed with which such an enterprise should become profitable. For convenience we will take two cases, as these are the extremes of expectation.

In the first case, a man of trading experience who has already been associated with some successful enterprises thus states his position—

in some branches of trade. He thus states his intention—

"I have no capital worth speaking of. I am unmarried and have few expenses. I have my evenings and can scrape up a few pounds as I want them. I can work a business from my home and for a few shillings a month can use the newsagent's address for letters to come to, as he will let me a couple of rooms when I want them. I will slip into one of the local factories and see what line they can let me have that I can offer and keep offering."

So far so good. But he goes on—

"I expect that each advertisement will pay for itself and for the goods and allow me a small profit."

Now in these two cases is the vital difference between the two conditions of mind with which the trade is entered. It is not suggested that the second idea is impossible or emanates from a man of fantastic optimism. It is probable that even to-day, in spite of competition, such a plan can be worked on, and that bargains can be offered to the public which will draw enough response to show a profit or nearly so on each transaction.

But the first of the two is the sound method; the second is not.

Of course it is not everyone who has £3,000 capital to start in such a business, and it isn't everyone who has such reservoirs of hope and faith that they will expect every deal to show its immediate cash profit. The two cases are taken as being at the two extreme positions that practical men might be supposed to occupy.

Now let us take the first of these again.

"I reckon," said an advertiser in this line of business, "that the direct traceable results of any advertisement should give me profit enough to pay for one-quarter of that advertisement. This figure is an average. If my results show out much better than this, I am more than satisfied. It is up to me, by giving good value and by perfecting my system of 'follow-ups,' to secure the other three-quarters and my profit from resulting trade."

Quite obviously, the man who works on a line like this sets out to build a connection and to gain the advantages that come to a recognizable brand. Permanent goodwill is to him more important than temporary profit.

Take the case at the other extreme. It is not disputed that a shrewd buyer may be able to find parcels of goods which judiciously represented (or exaggerated) in advertisements may draw a sufficient number of half-crowns or half-sovereigns from the public to pay for the whole transaction. But in such a case the trader is up against some serious difficulties.

To obtain sufficient profit to cover the cost of the advertisement on the one deal, and at the same time to offer the goods at a sufficiently low price for this purpose, he is driven very low down indeed in grades of quality; if not low enough to cause actual complaint, at least sufficiently so to put himself out of competition as compared with ordinary dealers, and to gain no repeat orders.

Now this kind of trading has its best profits at the beginning. It is said that the chief result of advertising is cumulative, but publicity can be cumulative in bad marks as well as in good ones.

The man who has been "bitten" by an advertisement is not simply one person less to be reached when the advertisement reappears; he may be an active agent going about to destroy the effect of repetitions.

We have all heard a remark such as this, as a piece of publicity is pointed out: "What?

That man still advertising? I sent him my 5s. 6d. once—but never any more for this child."

Or, the man who seeks an immediate profit on each deal may set out to be a bargain-hunter for the nation. He may come upon a choice lot of mackintosh capes to be cleared at a ridiculously low figure and get an option on them. Even allowing for heavy costs of publicity they remain a bargain, and sales are heavy.

But when the lot is cleared he cannot repeat at the price, and to be able to continue his plan he must search for more bargains.

Such a trader as this is faced with the difficulty that in order to deal with a heavy rush of trade, an establishment of some kind must be set up and certain permanent and recurring expenses provided for. His immediately becomes that most difficult sort of business: the trade where nothing is certain but the outgoings.

The writer is aware that there is another possibility that is covered by neither of the preceding cases: that is, the application of the mail order system to an entirely new idea or to a new article in wide demand.

It is probable that some of the well-known concerns doing business in this manner actually paid their expenses from the day they started. At least one important case could be named, where every advertisement at the beginning brought back a sufficient cash response to pay for itself, the goods, and expenses, and those behind the scenes who know of this case may think it is typical.

But it is to be remembered that here the firm traded on a simple plan. They offered a line in large and popular demand that had never been offered in that way before. A new firm starting in the same line to-day would need to be able to meet the competition of this now powerful house and a half-dozen strong firms that have since adopted its lines.

The romance of commerce is a long record of new applications and new methods as well as of new discoveries and new commodities. In the field of things that are new, the would-be mail order business proprietor has probably his best chance, especially if his reserves are small and he is able to trade upon only a very limited sum.

To take a line of trade that is already being well worked and in which it is clear there is already a good deal of capital involved is not the task for a poor man. The chances are emphatically against him. To obtain sufficient immediate results, he must sell at a sacrifice of future prospects.

It is wiser to consider those lines which have not yet been made material for this trade (a rather difficult task in itself), or to seek out some variation of method that shall enable him to offer unique advantages.

New discoveries, new pastimes, and new interests present promising fields of exploration. A firm,

for instance, that during the "wireless in the home" boom, came out with the offer of a wireless set of mechanism, of special appeal to the poor man's purse, had an excellent chance. But even in this case permanent business would not easily be built up.

Locality and the Selection of an Article.

It is presumed here that the trader has decided to enter the mail order business, and that he has sufficient capital to enable him to enter it in a moderate manner and not to expect it to provide him with immediate profits. He decides that he will offer to the public one article only, even though that article be made up in different sizes.

Often a man's best inspiration as to the goods he shall place on the market comes from the business that is being done round about him. If he lives in a manufacturing town famous for any special kind of commodity, it is sound sense that he shall pay attention to that commodity in preference to one that has to be brought from a distance. There are several reasons why he should do this.

In the first place he is at the headquarters of the market, and is thus able to cope with demands of any size at the shortest possible notice. If he is, for instance, living in Hanley and is advertising tea-sets through the Press, he is in immediate touch with a large number of manufacturers and is consequently in a better position to keep himself stocked than he would be if he were carrying on the same business from Leeds or Bristol.

Then, again, he is following the natural trend of trade. It is reasonable that a man in Hanley should sell tea-sets, since he is in the very centre of the potteries, where the tea-sets come from.

The trader offering an article from the town that is famous for its manufacture of that or similar goods has less difficulty in convincing the public that he is able to trade at an advantage. "Direct from the factory to the home" becomes a more reasonable kind of trade slogan.

The man who is selecting a suitable article for this purpose has an advantage, too, in paying attention to those produced by his own town in the natural suggestion that arises out of the industry itself. For instance, it may be pretty generally known that all the factories in the place are at times employed in making a special kind or grade of article, and it may also be known that that article sells in Cornwall and a small part of Devon, but practically nowhere else.

Examination may reveal the fact that there is no special reason why it should not sell anywhere. It has found a certain localized market not because of geographical conditions, but simply because the people of one county happen to recognize its virtues and other people don't.

The alert man will say to himself: "This is my article; I will attach my name to it, make a brand, and try to build a trade through the country equal to the trade that exists already in one spot."

Trade is full of strange opportunities of this kind, and it is the man at headquarters who becomes aware of them.

Another very strong reason for trading in the article that is manufactured locally is that many a man who begins as a simple dealer ultimately becomes a manufacturer, and it is always easier to carry on a factory in a town where workers in the line already live than in one to which all one's employees must be imported.

There are, too, the opportunities that belong to a town with a stable industry; an old factory may be obtained already equipped, and premises hired that have already been made suitable for carrying on that trade.

Beyond this, again, there are certain financial advantages that may prove very useful if such a business shows signs of growing beyond its capital. Local investors are more easily interested. It is natural that a man who has made a large fortune in making tea services and similar goods will quicker consider a proposition in a business that has already paid him handsomely than in one of which he knows nothing.

It is easier, too, to interest those people with whom one trades and from whom one buys largely when they are near neighbours. A great manufacturer might quite willingly consider going on the board of a small but compact little enterprise when he can see the actual building from his office window, and can attend a directors' meeting by simply crossing the street.

CHAPTER II

PLANNING THE BUSINESS

It is not attempted here to draw out a plan of a mail order business which, if followed, will lead the reader to success; because such an attempt would ignore the first fact of all commercial achievement, which is that the man is always more important than the system. The best of plans will not work itself and, equally, a very imperfect system will often suffice if the man behind it has energy and capacity.

For the sake of convenience we will presume that it is proposed to start a mail order business entirely on its own, and not in any way connected with any existing concern.

It is also presumed that the man who thus adventures his time, energy and money has a certain amount of money at his disposal and has had previous commercial experience. These two things are important.

Capital.

Capital is required. As regards the amount necessary, the old adage about cutting the garment according to the cloth applies with neat precision. The aspirant with £200 cannot act in quite as lavish a manner as the man with £2,000.

(In stating a sum it is not suggested that £200 is a minimum of money required, or that there is any minimum. A mail order business has been started before now out of income, the daring trader in this case spending the larger part of his salary in gradually extending such a concern and doing the work it involved in the evenings.)

We presume our beginner has a small sum at his disposal. Let him face the fact boldly, that the moment he starts he is giving hostages to fortune and no matter how excellent his scheme, there is no positive guarantee of success.

It may be that from the first day he will see results of a perfectly satisfactory nature, or that he will see his reserves depleted, with no prospect of better things ahead, until he has no alternative but to cut the loss and close the deal.

In a trade in which the most experienced are unable to estimate precisely the results of any move, there is always an element of risk.

Previous Experience.

Previous commercial experience is important. It cannot always be in the same method of trading. A man who intends to start a shopping by post enterprise is not always able to secure employment in a firm doing this class of work. But, it is rather desirable that it should be in a business related somehow or other to the article it is intended to sell.

Thus, it would be a great advantage (to put it no higher than that) for the intending salesman of blankets, to know something about their manufacture or wholesale or retail sale. It would be desirable, for the initiation of a campaign to sell cigarettes through the post, that the trader had handled cigarettes in some way or other as a commodity of a previous business experience.

This opinion is expressed with some reserve and in quite a general way. One of the best known brands of textiles upon the market grew out of a mail order business started by a man who, up to his commencement in trade, knew nothing about the article he offered but its price.

Selecting the Article.

Our beginner selects his article. That selection may be regarded as the key act of the whole business. It must be what insurance people call an "actuarially sound" selection. That is to say, the goods selected must be procurable at a price and saleable at another price, that with reasonable success in sale, shall allow a sufficient margin to pay expenses and yield a profit.

"It costs me fourpence to handle and sell every bottle, and my gross profit is a fraction under threepence on each," is an intriguing statement. As the record of the first few months' business it may be highly satisfactory, but as the ultimate analysis of a trade in full running order in normal conditions it spells disaster.

Some mail order ventures have broken down owing to an initial blunder of this kind in planning the campaign. It is sometimes possible to re-adjust prices and qualities after the business has been running awhile; in any trade that is subject to market fluctuations this is often done with very little sacrifice, but in many enterprises the change would throw the whole plan out of gear.

The most frequent initial mistakes arise from: (1) a bad plan; and (2) an impossible article.

To take a very wild example of the latter. Loaves of bread could not be sold on mail order lines at a profit. They are too heavy in proportion to their cash value, they need to be delivered fresh from the bakery, they would not allow for cost of advertising.

No sane trader would dream of applying this method to the bread trade. Other articles can be thought of that are almost as unpromising, and in the list of articles outside his range he would make a clean sweep of a very large number of commodities.

It is, however, when he begins to view the lines that are not obviously unsuitable that he is in danger of deciding upon one, the unsuitability of which is apparent only after long and expensive trial.

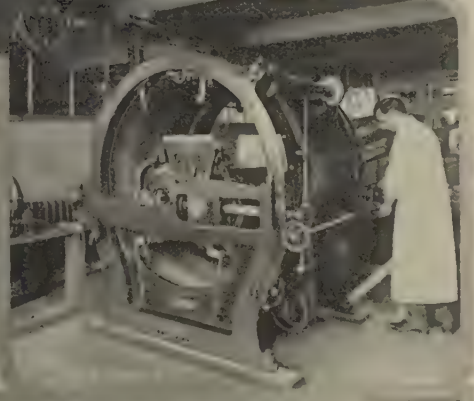
A trader has a margin between cost price and selling price. In some cases, that margin is sufficiently wide to allow of this method being applied. But it is not so everywhere.

In estimating this necessary margin of gross profit it is rarely sufficient to take the mere facts of prices. Convenience and service comes into the consideration, and as a rule these tell against the mail order dealer, as he cannot often offer the advantages that are offered by other salesmen.

Thus (keeping to the loaf of bread), even if it were possible to arrange that bread could be sold in this way, the system would still break down, because the convenience of varying quantities would be lost. The bread man delivering at the door can ask: "Two loaves or three?" With goods ordered in advance this would be impossible.

Range of Stock.

In the same way it may be reckoned as a convenience that, in buying some classes of goods, the buyer shall have a large range of stock to select from. It is not usually to the interest of a mail order dealer to encourage variety, for he gains his best results from the constant repetition of



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Messrs. Dubarry et Cie

business in one article or in as small a number of articles as possible.

But, upon the other hand, the mail order dealer can see many lines in which the advantage lies upon his side. There are articles made in countless shapes and sizes and varieties in which one unvarying size and pattern would serve just as well as any number. There are goods of which stocks must be held in wholesale warehouses and retail shops, often for months at a time, in order to meet the necessities of trade, where deterioration could be avoided and freshness guaranteed were they sent direct from a central store or factory.

These separate points gradually reduce themselves to figures and, no matter what the article may be, the enquirer can ultimately get his case into the form of a simple problem: "The difference between the cost of this article to me and the price I can obtain for it, is X . Is it possible for me to get my expenses and profits out of that amount?"

Business Should Pay with Small Sales.

It is advisable in making the plan of a mail order business not to adopt a line that can be made profitable only when a large sale is secured.

A plan would be bad in which the planner had to reason: "There would be no profit on £50 a week turnover, but there would almost surely be a profit on £200 a week." Nearly always this very method of thinking is fallacious. If a mail order trade will not pay on a comparatively small unit, it will not pay on a large one.

It is recognized that when a man takes a retail shop or employs a certain number of people or undertakes fixed charges of any amount, he is justified in taking such a line. But the essence of the mail order trade is its natural freedom from any real need to do a certain amount of business in order to make it pay.

A man may be entitled to reason in this trade: "If I sell only £50's worth a week I shall make only 50s. for myself and my time is worth more"; but from the start the business should be so arranged that when it is in running order the small unit should show some kind of profit on trading.

The tendency of expenses in any business is to keep increasing as profits increase. Hence it is desirable to work out calculations, not upon a maximum turnover in which the profit shall be obtained by heavy bulk buying or manufacture, but upon the smallest turnover worth doing.

Dealer or Manufacturer?

In deciding upon the article or articles to be offered to the public the beginner should think as a dealer rather than as a manufacturer.

There is scarcely a commodity suitable for the

purpose that cannot be obtained in wholesale quantities under almost any conditions.

We are dealing with the case of a man without any present trade, setting out to establish one. Almost the worst act of folly such a man could commit would be to involve himself with plant, machinery or any kind of appliances that involve a factory or workshop, however small, being kept going.

It is an old rule of sound business: "Be a dealer before you are a maker," and it applies to this trade as much as to any.

There are exceptions, of course. Where a high-priced, hand-made cigarette is to be placed on the market, and no great amount of skill is required of the workers, and no plant is necessary, the best guarantee of quality might be in being able to buy tobacco in bulk and in keeping personal control of such simple processes as are necessary in making cigarettes.

Or where the article is of such a nature that it can be turned out in a kitchen or made up in a parlour, such as toffee or camisoles, in which the special virtues claimed indicate personal oversight and special individualized attention, the objection does not hold good.

But where it is a blanket, or an easy chair, the notion of setting up looms or a furniture factory to supply a trade that as yet has no existence, is rather more than heroic.

Unfailing Supply.

In adopting a line the trader should see that he can depend upon an unfailing supply. In this act he should be *master* of the supply and not subject to the whim or decision of another person.

For instance, Timmins & Tripp, Ltd., are weavers, having mills capable of turning out large varieties of goods. They are the possessors of some patent and secret methods.

Among these is the protected method of manufacturing a special fabric that has never sold, in spite of all attempts to put it on the market. A trader sees his opportunity.

"This would sell," he says, "if sold direct by advertisement."

He makes overtures and Timmins & Tripp, Ltd., agree to supply him with such quantities as he may desire for the purpose. The trader builds up his business, the public respond, and trade is forthcoming.

Just as it begins to pay him the mills and business of Timmins & Tripp, Ltd., are bought by a still larger firm who do not approve of mail order business and who trade only through the wholesale warehousemen. They have new notions, too, of profit.

Supplies are not cut off. The goods can still be obtained, but only through a middleman and at a price that throws the whole business out of gear.

Obviously, the trader who creates a demand

that he will be unable to supply through such a decision, outside his own control, is building his house on the sand.

In the same way, a mail order business established to deal with goods that are at any moment liable to be cut out of the list, is very faultily planned. There are, doubtless, commodities that can only be found in one country, and that a remote land occasionally ravaged by war. To stop the sources of supply for a few months may bring a trade to a standstill, and cut away all the cumulative value of goodwill.

It has already been suggested that the right centre for a mail order business is in the very heart of the district in which the goods dealt in are produced. It constitutes the best protection to a trader who is suddenly inundated with orders, or who finds his supplying house unable or unwilling to continue their service, to know that within a mile or two are a dozen factories willing to help him out of a present dilemma in hope of gaining his future trade.

CHAPTER III PREMISES

OUR beginner should take modest views at the beginning. His chief business is to find out how to get money in, and not how to pay money out.

The moment he seriously considers his problem, the question of premises will arise. Doubtless his friends and advisers will recommend him to take long views. In his imagination he will see the wide stretches of warehouse floors and busy workers by the hundred engaged for him in his enterprise.

Minimum Outlay.

It is all very well to see these pleasant things as visions, but it is safe to arrange for them to be made real when the business actually comes. In the majority of cases the best rule for starting a concern of this kind is to keep every expense down to the minimum of outlay.

There are several stages in a mail order business. The first is the experimental stage, and till that has been passed the beginner knows practically nothing of what his needs may be.

Many of the chief banks of this land started in the room behind a retail shop. Possibly the best starting place for a mail order business is in a place as unpretentious.

We will presume that our beginner, from various reasons, is unable to commence from his own home. It may not be desirable to use his personal private address, he may be a lodger in a home where letter-box arrangements make the place unsuitable.

To begin he need not commit himself to more

than a single room and a short lease. He need not employ a single person.

But, right away from the moment his first advertisement appears he must have his own letter-box to which no one but himself, or his suitable representative, shall have access.

This subject is dealt with rather more fully a little later, as also the arrangements of warehouse and office. Here we are dealing with the start.

Planning for the Future.

The beginner should look ahead and plan ahead, but in some tasks he can safely leave the future to take care of itself. The man without, as yet, a scrap of business, who arranges and lays out his warehouse in the form it shall take in the future doesn't trust himself. His action means "I have brains enough now to plan for trade that doesn't exist, but in a few months' time I shall probably not be clever enough to plan the arrangements for a business that does exist."

There are some problems that can safely be left till they arise. The warehouse is one of them.

But though he need not plan for the permanent arrangements of his warehouse and staff, he should be prepared for any possible or reasonable *immediate* result.

It is quite safe to start a mail order business with a single room as combined office and warehouse, and to commence advertising with this simple provision. But it is not safe to insert a single advertisement without having a plan suitable for results of any dimensions.

The difference between having a single room and a three-floor warehouse is not the difference between being ready for whatever may happen or unready, because three floors may be as inadequate as one. Preparation should take a different form.

"Supposing," thinks our beginner as he drafts his advertisement, "100,000 people send me the 14s. 9d. each and ask for the dress-length, how should I deal with them?"

Obviously, being properly equipped for such a stupendous result is not much affected by whether one has a slightly larger floor-space.

Being prepared includes the subject of floor-space undoubtedly, but this is only one of many problems. It is wise for any man who uses the Press to be already informed as to what premises can be obtained at a moment's notice, and what arrangements can be made for temporarily equipping them.

A Successful Start.

Let us deal with the case of a beginner who finds himself inundated with replies. This sort of thing is not likely to happen. As a rule the first results of advertising are very disappointing, but the arrangements should provide for any possible result, and in the history of this kind of

operation there have occasionally been surprises of a gratifying and staggering nature. Here are some essential acts.

A glance at the post and a rough estimate of the number of letters reveals the probable quantities of goods that will be necessary. Can they immediately be obtained from the supplying house? If not, what other sources of supply are there and how long will it be before the goods will be obtainable?

Probably, if our beginner has made his plans well, he will have no difficulty here. The most likely answer to this question is: "I can get the goods in quicker than I can get them off."

His original single room is, of course, impossible as a warehouse to deal with the rush. But it can be an office and letter-box, a centre of operations.

Many things have to be arranged at once and there is no way of deciding the order in which duties should come. But it is a fairly safe statement to make that the first arrangement is to secure that the postal deliveries are never left unguarded till the money has been separated and banked.

Our beginner may need to begin by purchasing a Yale lock and arranging with the Post Office for letters only to be delivered when he is personally present to receive them.

Taking Care of the Money.

A few mistakes are permissible in a rush. There may not be time to check every postal order against its covering document. Some amounts may be a few pence wrong, but make the money safe. Get it banked!

Where only one article is advertised one may take very much for granted about the contents of the letters. But where 10s. 6d. pays for one article and 12s. 4d. for another, the document should be marked with the amount of money taken from it, as the lady who wrote for the blouse at 10s. 6d. may not want the rain cover at 12s. 4d., and possibly only wrote for "the article advertised."

(One must be prepared for the fact that buyers often give the most scanty information, and unless one knows the amount sent when despatching the goods, one may be quite unable to know what had been ordered.)

Printer and Addressing Firm.

Our beginner has arranged with a printer and an addressing firm. If there is likely to be a delay of some days (which almost certainly there will be in such a case), cards should be printed and posted within twenty-four hours thanking for the order, indicating that there is a very heavy demand, and promising as early delivery as possible.

An addressing firm, if there be one handy,

would be a useful ally to a trader dealing single-handed with such a rush of orders. It is, of course, giving away one's business to some extent, but it must be remembered we are dealing with a rush of trade. If possible, several firms should be employed, a portion of the letters being given to each. Such a method would not cause remark and inspire competition.

The addressing firms could also prepare cards if this method is decided on. The subjects of cards and books is dealt with later. Failing addressing firms, the trader probably knows of typists with machines or can get to hear of them. His task is, without a staff, to get together workable office material and to notify the receipt of money as rapidly as he can.

Receiving and Despatching Goods.

As regards the actual receiving and despatching of goods in a rush of this kind, if he is getting his supplies locally, his supplying firm may be able to assist him.

In a somewhat similar case a trader recently "borrowed" a whole staff. A firm "lent" a foreman and three or four workers accustomed to the despatch of goods. A dozen other workers were promptly found and a hastily thrown together staff dealt with a great rush of trade.

Important Points.

All the above relates to an exceedingly unlikely event. The point of the whole thing is, that there is never a necessity in a good-sized town to tie oneself up with heavy permanent expenses till the trade has been tested.

The trader may need to work through the night and get assistance in the evenings from those who are employed elsewhere in the day, but everything resolves itself into a question of management.

These, then, are the points on which the advertiser must be prepared—

1. He must know that he can obtain his article in any quantity without delay.

2. He must know of suitable premises that can be borrowed or rented for a short period at once.

3. He must know a capable man who can overlook and provide for clerical work being done and who at least can give his evenings to the work.

4. He must know where he can get a staff able to pack and despatch goods; one of whom at least should be capable of organizing such work.

CHAPTER IV

PEOPLE WHO ASK QUESTIONS

THE man who starts a mail order business is, up to the extent of his advertisements, a public man, and consequently open to public criticism. In consequence he has to act as if the full glare of the searchlight were upon him all the time.

He will probably be surprised to find that some of the acts of other people may not appear to be entirely friendly, and also that some of the overtures made to him are of a rather curious nature.

The Police.

He may find that the police are interested. This is a possibility that the beginner will not

"I think," he added, "that this is a citizen's duty. Inviting the public to send money through the post to a firm they may never have heard of before, is an act that should be performed only with the full knowledge of the police authorities."

There is an advantage in taking this step, for some folk, when in doubt, go to the police. A disappointed client who has not had his goods back by return of post, will sometimes rush off



Photo

SHOWROOM FOR WIRELESS APPARATUS
(The Peto Scott Co.)

Kealeys, Ltd.

always think of, and a call from an officer may take him unaware. It is not suggested here that such a thing is sure to happen to a beginner, for methods differ in different towns and the police authorities have different ways of interpreting their duties.

But anyone who puts an advertisement into a newspaper, asking for money to be sent to an address is, and very properly, too, a subject at least for notice by the local police authorities.

"If I ever start a mail order business," said a business man recently, "the very first thing I shall do after having arranged my banking account, will be to notify the police of my intentions and to give as much reassuring information as seems politic.

to the police station of his own town and lodge a complaint (although the same man in all probability will forget to notify the police when the goods are received).

Such complaints, passed on from one police station to another, can be dealt with in a reassuring manner by the police who have had a frank and satisfactory explanation of intentions, made before the business was started, and possibly backed by references.

There are other manifestations of outside interest, however, that are scarcely as well justified, but for which the beginner must be prepared.

Newspapers and Journals.

At times newspapers and journals appear and

gain some kind of vogue, that partly exist upon profits from advertisements obtained in an unfair way. The writer is able to call attention to this fact with a large degree of detachment, because just at the time of writing, the newspaper world is singularly free from such unpleasant contemporaries, and he does not know a paper at the moment adopting such tactics.

But there have been such papers in the past and there may even be some now.

The method in which such journals bear heavily upon the mail order business is by giving the trader the option of taking space at a heavy price, or of being made the subject of attack in the journal.

The option is not put quite as bluntly as this, for legal reasons, but it is quite clearly understood. The people who control papers of this kind are careful to keep inside the law, and not to take any action that would be evidence of an attempt to blackmail.

The opportunity of the paper of this description is when one or more readers, kept waiting a little longer than they should be, write to the editor complaining that they have not had their goods, or write to ask if the editor can give any information about the firm.

With such letters in his possession the interested person on the paper can explain to the trader that those who advertise in the journal are always treated with great consideration, that it pays to advertise and that the price is £x per page. The mail order dealer may decline to advertise, and in the next week's number of the paper he will be able to read a paragraph or a reply to a correspondent that, however guardedly written, will seem a very damaging attack.

This method is pointed out here, but the writer refrains from suggesting too definitely how such overtures should be received. He is aware of one particular case in which a perfectly honest enterprise was seriously affected by a series of such blackmailing attacks, and only secured peace by inserting advertisements and getting the attacks explained away.

This seemed a very weak course to take. But the difficulty is that those people who are liable to such attacks are very often very weak people, or the ordeal happens at a time when they are financially embarrassed or are beset with other difficulties.

It is noticeable that the paper that resorts to such methods can rarely do so unless there is a reasonable excuse for an attack. The firm that is not prompt in despatch is probably the one most liable to this kind of overture. The moral is "mend the methods and no one can speak ill."

As a rule, the paper that goes in for such methods has no real influence, and its attacks are taken by the public at their real value.

CHAPTER V

DEALING WITH THE INCOMING MAIL

WHEN advertisements are inserted in the Press with the object of getting the general public to send money through the post, the advertiser must make arrangements that shall prevent any risk of letters falling into other hands.

The Letter-Box.

In this it may be wise to have a conversation with the local postmaster if the letters are expected to arrive in large quantities. Where the beginning is being made on a comparatively small scale, it may suffice for the advertiser to take reasonable precautions about his letter-box, and let the mail be delivered in the ordinary way.

The letter-box should be large and deep. It should have a good lock. It should be large enough to take the whole post, and not involve the postman in the task of pushing an overflow selection under the door.

The letter that goes astray in the ordinary course of business is a cause of difficulty at all times, but in the mail order business a lost letter is little short of a catastrophe. The man who sends a sum of money in answer to an advertisement, when the amount is small may not trouble to write when he fails to receive the goods, but falling into the easy mistake that he has been defrauded by some new form of confidence trick, becomes henceforward an advertiser of the firm's misdoings whenever he chances to see the firm's announcements and there are people around to hear his comments.

The effect of a few people freely expressing their opinions or experience in this way can scarcely be estimated. A rumour can grow and there be set rolling a snow-ball of ill repute that it will be almost impossible to stop.

In the course of the history of a large business it is reasonable to expect that there will be an occasional loss of a letter or two. But the firm that has been established several years, and that has a recognized reputation, can afford an occasional accident or two in this way, where a new firm, unknown to the commercial world, cannot.

Opening the Letters.

To begin, the advertiser will probably open all letters himself or have them opened under his own immediate oversight. As the business grows this course will become difficult or impossible, and the arrangements should provide for this work to be done in such a manner as will prevent all chance of loss.

For this purpose a large table is desirable. If there are two or twenty people engaged in the

work they should all be working in such positions that they are in easy sight of each other.

The writer has seen a room arranged for dealing with a large number of letters, most of which contained postal orders. The work had been hastily undertaken, and the half-dozen workers who were employed were spread about in different corners of a large room. Nothing went wrong in this case as the workers were exceedingly reliable and trustworthy. But all of them agreed that it would be better if the small tables could be brought together so as to form one large one.

Each post or batch of letters should be dealt with separately. The table should be cleared of everything and the letters counted before they are opened.

Letters Containing Money.

Where the vast majority of the letters in a post may be expected to contain money, the letters should be passed over to the openers in batches of 100, or any other convenient number, and three piles received back before a next lot is issued.

These three piles should be: No. 1, the postal and money orders and cheques, fastened together with a paper fastener; No. 2, the documents, such as orders and letters covering the remittances, also fastened in this way; and No. 3, the letters containing no money with all the contents returned to the envelope.

Some responsible person, passing out and receiving back the batches, would then be able to make a rough check: 97 postal orders and three letters not containing money would balance the 100 issued.

A useful contrivance for this kind of work is a numbering stamp, which numbers the documents with which it is impressed with consecutive numbers from 1 to 10,000; in this the act of stamping, works the mechanism that brings the next number into its place. It is possible to set these contrivances so that each number can be impressed two or three times as desired.

Where large numbers of postal orders for small amounts are received, it is a good plan to stamp the letter and the postal order with the same number. The need may not arise, but it is useful, in case there is any later question, to be able to turn up the original postal order received.

In cases where this is done, and the bulk of money is in postal orders, it is sometimes necessary to hold back the money till there has been an opportunity for the letters to come into individual review. This may only mean a few hours' delay or that each day's receipts will be kept over till the next day before being banked.

The plan is not here recommended, nor is it advisable unless provision is made for safe keeping of sums of money. The contingency that is particularly guarded against may seem surprising

to the reader who has had no experience of the carelessness of some people in sending money.

Careless Customers.

In a great newspaper competition, where thousands of postal orders for small sums were received, it was discovered that between 2 and 3 per cent of the competitors either enclosed no coupon or omitted to fill in the name and address.

People who write for advertised articles are not as careless as this, and the proportion would be considerably lower. More than this, such people expecting to receive goods are more likely to write again than the competitor in a contest, who presumes that he is not successful and lets it go at that.

The advantage of having the same number on the document and on the postal order lies in the fact that, as soon as it is discovered that the letter cannot be dealt with because the name and address are missing, the remittance can be turned up and the particulars as to the issuing office can be obtained.

The whole advantage, however, where sums are small, is so slight that it is doubtful whether the work involved is paid for by any real gain.

A simple plan adopted by one firm was to open a ledger account and post into it all sums received to which there was no name attached. This account, "Unnamed Remittances Account," was always available as a set-off against claims. Every-one who wrote stating that a remittance had been sent and no goods received, was credited the amount claimed from this account and the order duly executed without any question.

Needless to say, this policy was not advertised. There are obvious reasons why it should not become public property that one has only to write to Messrs. Jones & Walker, Ltd., claiming to have sent 5s. 3d. on the 23rd July last, to receive an apologetic letter and a packet of silver-plated spoons.

Cheques.

It is the custom in business to treat orders paid for by cheque in a different manner from those paid for by postal or money orders. The recognized rule is that the cheque shall be cleared before the goods are sent.

It is not difficult, when letters are being opened, to make a distinction between the two kinds of orders. Those where money orders are received can be executed at once. Those where cheques have been sent can be held over the necessary three or four days in order that payment shall be secured.

Some firms—especially those dealing in articles of little money value—ignore this distinction, holding the theory that the man who possesses a cheque book will not issue a worthless cheque for a small sum.

They recognize that sometimes people of lax honesty get hold of a cheque book, but it is very rarely that the dishonest man wastes a cheque, in such a case, upon a slow bargain with a distant trader for an article of comparatively small value.

It is, however, convenient to have a record somewhere of any cheques passed through the office. Sometimes this is taken when the cash is lodged in the bank, on the counterfoil of the paying-in slip. Sometimes the necessary information is written upon the order accompanying the remittance. The name of the bank, the town or branch, the signature of the drawer and the amount, are sufficient. These, by the use of abbreviations or initials, can be cut down to a very short line.

All checks, however, that involve money being handled unduly, or delay its being placed in safe keeping, are best cut to a minimum when remittances are for small amounts and their number is large.

Remittances Should be Banked at Once.

There is, or should be, in all trading places a sharp division between office and warehouse. It may be desirable to send orders into the warehouse, but there is no reason for the money going with it. Over the line, whether it be real or imaginary, between the office and the warehouse, the money should not pass. It comes into the office in the letter. It should leave the office as part of the lodgment for the bank.

This point is emphasized because there is a habit among some business people of keeping a remittance fastened to its covering letter in all those cases where some mistake has been made or where a question arises.

"If you cannot execute a customer's order, you should return him his original remittance," declares the legal-minded trader.

Perhaps so. But the best plan where amounts are small and numerous, in those cases where there is likely to be a delay, is to bank the money and make sure of it.

It does not help matters when someone remits 12s. 6d. for what no one quite understands, that the discovery should be made at the end of three days that, in the process of being passed from hand to hand and lying about and being made a theme of research, the postal order has got detached and is missing. It is just as well to have that 12s. 6d. banked.

In case the money must be returned the firm's cheque is just as good as the original postal order.

At all events, if the person ordering made the mistake in the first place, he must not object if he has a little trouble in getting one of his tradesmen to cash a cheque should he have no banking account.

The Office Deals with Orders.

One advantage of separating money from orders in this sharp and definite way is that the orders thus separated are at once available to be passed on for execution.

In the business which employs many people in different departments, it is desirable to arrange matters in such a way that one department does not have to remain idle till a lengthy operation is completed in another.

In the system indicated above, the first hundred letters opened and separated makes a hundred or nearly a hundred orders ready to be passed on.

Those orders should not be passed out to the warehouse till some record has been made. In many cases this would be an exceedingly easy and brief transaction.

Suppose, for example, the firm is offering one article, say, a shaving set, brushes, razor and strop, at 17s. 6d., and practically every letter received encloses this sum and an order for the set.

Strict business rules demand that two entries shall be made, that the amount received shall appear in the Cash Book and the order shall be entered in the Day Book.

In actual work, however, one entry can suffice, and that entry could be a single line, thus—

Roger Malpas, 9 Queen St., Burrsbridge, 17s. 6d.

Such lines can be written at a rapid rate. Within a few minutes of the letters being placed on the "letter opening table," it should be possible for a small package of orders to be passed into the warehouse to be made ready for despatch.

The Original Order.

In some firms it is not customary to let the original order leave the office. In such a case as that before us it would not be necessary, as the fact that all articles were precisely similar would remove the necessity for sending out anything but an addressed label.

But where the order is rather more involved there appears to be little harm in the original document being used for purposes of selecting and packing the goods. Such a case as men's under-clothing, stocked in several sizes, would need the fullest particulars being available for those who actually handle the goods, and where these details are lengthy and liable to be changed in copying, there is time saved and liability to error avoided in this method being adopted.

Account Books.

It has been intimated above that a single entry in the Day Book can be made to serve a double purpose. Thus—

Supposing 250 orders arrive by the first post and each one contains money, it would be sufficient to enter the whole of them in detail in the Day

Book and the total for the day or for the post could be carried to the Cash Book.

To do this, the Day Book should have double cash columns, and every time such an amount was entered in the Day Book the first column could be totalled and the amount extended into the second column.

The entry in the Cash Book would then be a single line for each post, or for each day's receipts, or for the amounts included in any one bank lodgment.

Where entries in a Cash Book balance each other in this way, it is very much easier to detect errors and to balance the books.

Petty Cash Book.

In every office there are certain small expenses. Even in a mail order business, where entries may be few, it is well to run a Petty Cash Book for these amounts, entering totals in the main books from time to time. The section on Book-keeping deals with this subject.



Photo

Kenleys, Ltd.

PACKING POULTRY FOODS AND SUNDRIES
(Messrs. Osborne & Young, Ltd.)

It adds to the simplicity of book-keeping, especially when large numbers of small items are being dealt with, to get sums of money into separated groups and deal with them as such.

Two hundred and fifty remittances, for instance, entered in detail in the Day Book could thus not only appear as a single entry, but could be balanced immediately by the complete sum being banked as a whole.

On one side of the Cash Book would appear the entry—

July 27th, 8.30 a.m. Post . . . £218 5s.

and on the other—

July 27th. Dulcet Banking Co. . . £218 5s.

A very important part of the office work of a business of this description is all that range of activities involved in the use of the card index and in keeping in touch with actual or possible buyers.

Before dealing with this subject a little space must be devoted to the actual handling of the goods, their receipt and despatch.

Goods Inward.

We will here presume that our firm does not manufacture, but receives its goods in bulk from the supplying houses.

When goods are received into a warehouse a single book, large enough not to be mislaid, should

be available for notes and particulars of goods received.

The man who buys the goods is the man who has the last word on whether his orders have been properly executed, but he is dependent on the information that comes from the warehouse.

Where a simple statement suffices, that statement is all the warehouse foreman need make. Supposing the firm is handling Royal Navy Serge, of one standard quality and width, the foreman should be able to show whether on 21st June three bales were received from a certain firm or four. This is the sort of entry that goes in his book.

Beyond this it is the buyer's business to see that the goods thus received are up to the standard pattern. If the foreman sees anything obviously wrong he can point it out.

A good rule, however, is for material not to be passed into stock until the man who bought it has inspected it. In actual practice the likelihood of loss or error in this way is not great as, however weak the organization of a business may be, there are usually ample checks upon goods received, both in quality and amount. Various systems of checks upon goods purchased being correctly received are indicated elsewhere in this work.

CHAPTER VI

RELATIVE VALUES OF GOODS AND LABOUR

IN all questions of warehouse and office organization it is easy to overlook the real sources of profit. There are some employers who are best satisfied when the staff is going at full tilt, putting unmistakable energy into their work and accomplishing a very full hour's labour for each hour of time.

It is easy when the factory or the warehouse looks like a hive to take a charitable view of some of those incidents that seem inseparable from speed. The girl who in her haste to pass along the trays of goods occasionally drops a few fragments upon the floor, and in her anxiety to get on with the work treads upon them instead of rescuing them, may easily pass as a pattern worker.

There are few methods so costly in trade as that of increasing output at the cost of loss of or damage to material. The subject in many cases can be viewed as a simple one of figures. A worker whose time may be worth 2s. an hour, in that hour may handle goods worth £100. Quite obviously the damage or loss of a very small fraction of the goods handled would take all the profit made by working at double speed.

Hustled Work.

A visitor being shown over a sweet-stuff factory in which he had acquired a financial interest,

stood awhile in a room where a dozen girls were packing the 'sweetmeats' into boxes. Some were wrapping in tinfoil and wax-proof paper while others were completing the operation.

It was a revelation to the new partner, although he was a business man and had seen workers in all kinds of operations. The fingers of the practised factory girls moved at a speed that was almost magical. Long practice only could explain their wonderful agility.

But as the visitor stood watching, a lump of toffee slipped from a girl's fingers and fell to the floor. The work went on. No effort was made to avoid a repetition of the loss.

A few seconds later a similar incident happened.

Then the visitor began to look about him, specially throwing glances under the table and anywhere that such goods might fall. As he expected, there was ample evidence everywhere that during the morning a good quantity of these sweets had fallen. Many were already trampled on, and there were spots where the floor was sticky with the accumulations.

The new partner began to work out the probable cost of the lightning speed that had been obtained. That room explained to him the reason why the business he had joined did not pay. It was a fair sample of all the other departments of the concern. The controlling power of the business was a very capable and clever man, whose one absorbing idea was the arrangement of parts so that all workers could feel an impetus to rush their work through at the highest rate of speed.

Viewed from the point of output the policy was highly successful. There was no competitor who could pass a greater tonnage through at a lower price. But the business did not pay.

In that one packing-room the new partner understood why it did not. There was to him no sense in making three shillings' worth of time do four shillings' worth of work, if fifty or a hundred shillings' worth of material might be lost or damaged to do it.

This point is dealt with here because, where labour is employed and valuable stock is handled in the same premises, it is easy to put a higher value on the time of the worker than on the value of the stock.

In the illustration used it is not, of course, suggested that confections intended for consumption should be rescued from unpleasant places and served up as delicacies. The point is that in dealing with such valuable material, the stock could be better safeguarded by a few contrivances that might involve a slightly smaller output but would give almost pound for pound of actual weight.

Keeping Labour Fully Employed.

In nearly all business concerns, and the mail order business is frequently a good illustration,

the endeavour to keep all the hands fully employed every hour of their time, can lead to loss or to disorganization that results in loss. Let us take one illustration.

Higgins & Holt do a large trade in quarter-pound packets of tea, coffee, cocoa, and other articles. They have a staff employed continuously in packing these commodities, which are received in bulk, in large chests and boxes. According to the method of management, it is considered bad business if there is ever a break in the continuity of the packing operations.

The bulk goods in their cases are ranged along the wall at one side and there is always work to be got on with. As soon as a chest of tea begins to run low another is brought in, so that there shall not be the loss of a single moment through shortage of stock.

Messrs. Higgins & Holt employ a new manager. "This won't do," he says. "Pack up all you have left and clear the room. Not another ounce is to be brought in here till the last scrap is packed."

It was done; 5 cwt. of tea was brought in in bulk and the whole staff set to work to clear it, and not until the pile of packages had been completed and passed out of the packing-room into the warehouse was any more tea, coffee, or cocoa brought in.

Presently, after a few days of this method, one of the partners came along at one of those periods when there was a break to allow of one lot being finished with before more goods in bulk were brought in.

"There is surely no need for these packers to be idle," he said. "If they had another chest open they could be going on packing."

Then the new manager explained.

"When we began, 5 cwt. of tea was brought into this room, and the packers proceeded on their old methods. The goods were passed out into the warehouse—2,180 packets. There should be 2,240 quarter-pound packages in 5 cwt. In other words, 15 lb. of tea had been divided up as overweight on the lot with which we dealt. New brooms sweep clean, and I think the packers were careful to do good, careful work in view of it being my first day. It is probable that the average loss was higher."

Now, in this case, the man who sets much on the importance of factory or warehouse work going on like a machine, without any loss of time, found that his system broke down.

To divide goods and tasks into compartments does cost time. It may involve that there will be certain brief periods when some workers are unable to continue till one task has been settled up and a new one commenced.

But to scrimp a few minutes more time at the cost of sacrificing high-priced goods or losing an efficient check is not worth doing.

Divide in Departments.

Reference has been made above to the method in which an unexpected rush may be dealt with. Rushes of this kind are always a little costly and disorganizing, and in dealing with them the best rule is "first things first."

But when a business is in going order and it is possible to organize in a trade, the average dimensions of which can be estimated, the "rush" rules do not apply.

Very small premises were recommended as sufficient for a start. When the business has grown, the allowance of space should be on a rather generous scale. It pays to have plenty of room.

When, however, space is limited and large allowances cannot be made, it is good policy to keep at least one or two places clear as far as possible.

In the work with which we have just dealt (that of transferring goods from bulk to small packages, or similar operations) it saves money for such work to be done in a room or wall and space entirely clear of all goods excepting those being dealt with. Methods of checking are easier and there is less liability to loss. It is wiser to overcrowd the goods in less important places than to run any risk in this respect.

Similarly, the despatch department is a section that lends itself to frequent clearances.

"At 5.30 p.m., when the goods have gone to the Post Office and the station, I expect this floor to be absolutely clear," explained a trader, indicating his despatch department. "I make it a rule that the foreman shall report every day at a quarter to six that the floor is clear, or give information in writing about any parcel or parcels still remaining, with clear reasons why they have not gone."

CHAPTER VII

CORRESPONDENCE OUTWARD

THE letters received in a mail order business possibly possess in average one distinguishing feature; that is, that the majority of them deal with one out of three or four subjects. A certain number of people write that they have sent the money and haven't had the goods. Others (mostly small traders) wish to know in re-ordering if there is a reduction for quantities, or if the firm has a wholesale price list. Others complain that the blue variety was sent instead of the purple.

The fact that a firm does a business in one article or one range of articles tends to keep the correspondence down to a few subjects such as those indicated.

Form Letters.

Now when this happens in a business, it is not long before some bright thinker discovers that it

is unnecessary to draft a new letter for each reply.

With the morning post before him, he quickly sees that the letter to A would also answer the enquiry of B, as well as that of C and D.

So it is not long before he has written half a dozen or more stock letters, suitable for use in most of the difficulties likely to arise.

It is easy then to mark the greater bulk of the post with blue pencil: "Send A letter," "Send B letter," and dictate replies to the few remaining ones. The typist has her copies and knows what to send, or she may even have the letters already type-manifolded and needing only the name and address to be matched in.

All this, of course, is a great convenience and saves much time. There is the advantage of multiplicity of copies. Carefully thought-out phrases and arguments answer a difficulty better than a hastily concocted note. There is very much to be said for the stock letter. Carefully used it is often a splendid help to trade.

But there is also a disadvantage in this method. The tendency of the correspondence clerk (who is, perhaps, a very busy man and rather overworked) is to regard his letter file, increasingly, not as so many personal communications, but as a holder of a good trump hand as regards the various tricks as they come around: "Now which trump shall I put on this?"

By and by it may grow to be a positive obsession with him that if letters "A," "C," or "F" do not meet the case, "H" is sure to.

It is a noticeable fact that a certain large firm of mail order people can rarely be induced to reply to a question off the beaten track of their usual post. People who have tried them with an out-of-the-way question have been startled with the irrelevancy of the majority of the replies, and even more with the fact that the replies were wholly foreign to the subject.

Stock Paragraphs.

It is suggested here that there is a rather better plan than the "stock letter" for this kind of business, or, at all events, for any part of the correspondence that does not deal with one or two constantly recurring questions.

That is: "stock paragraphs," worked in connection with the rule that they constitute only part of the letter, and that in every case an endeavour be made to pick out from the epistle received some special point to which a special reply shall be made, if it is only a few words long.

Disadvantages of Stock Letters.

It is hardly realized, perhaps, how flat the stock letter begins to fall. It may be re-typed for each occasion, but it gives itself away always—most of all in cases such as these, by its irrelevancy.

Business depends upon freshness and the

human touch, and in mail order work it is a doubtful policy to make all actions mechanical and automatic. The opportunity to write a letter is an opening for business and full advantage is not taken when a mere circular (although typed and properly addressed) is sent instead.

Some time ago it was complained that a new method of salesmanship was deeply intriguing many buyers that new travellers having learned in a special school how to become automatic commercial travellers were wandering around repeating their formulæ by rote and declining to close down till they were through with the lesson. Of course, no goods were ever sold on this system.

The good old simple method of correspondence is threatened with a similar misuse just at present. It is so easy to deal with a little file by marking each letter with a blue pencil and passing it on to the typist to pick out and post the formulated reply. But opportunities are lost this way.

CHAPTER VIII

THE STAFF OF A MAIL ORDER BUSINESS

"My work is selecting my staff. The business runs itself."

So said a large employer jocularly. There is, however, a great deal more in the idea than some folk may think. A business sooner or later comes back to the personal factor and depends upon the man more than upon the system.

Character.

In selecting his assistants the mail order trader should look chiefly for character. He is in a business in which large totals of money are involved that come in in comparatively small amounts; and where, no matter how excellent the safeguards, there is always a risk of loss, through letters going astray, or of goods being misplaced.

The best of checks can be used. Arrangements for the quick safeguarding of money, such as have been described, may be adopted. Provision may be made that only one door is used for workers, that goods shall only be despatched in a certain manner. But none of these is so iron-bound in its accuracy that it cannot be defeated.

A dishonest person with average ability can sometime or other break through all the restraints of organization. There is really one effective check upon him. He cannot be a continuously successful thief when all his fellow-workers are honest in grain and spirit. He can fight contrivances and systems—he cannot fight an atmosphere.

Every conscientious employee in a business is, without knowing it, a better guardian of his

employer's property than are the bars and bolts. There is a psychological consequence of character. The thief working side by side with honest men becomes unnerved.

More than this, there is no place so public as a factory or workshop. Workers not only see each other's acts, but seem able to read each other's

in a trader, but suspicion (often confused with it) is a very bad one.

It is not sufficient to show judgment and discrimination in choosing one's assistants. If possible, there should be a rather large and generous measure in trusting them when they have been chosen. Unless the employer has got



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CORNER OF DUPLICATING DEPARTMENT

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intentions. The honest staff knows instinctively when there is one of another kind among them, and there is little that he does that cannot be checked.

The well-conducted business proceeds as smoothly when the proprietor is away as when he is present. This is a consequence of several qualities on his part. There must be power of organization obviously, but probably the chief reason is that he knows how to select men of character.

Suspicion.

Some employers suffer through faults in their own temperament. Caution is an excellent quality

the real heart and interest of his men he has not got the best part of them.

There is nothing that will keep a staff at a distance so effectively as suspicion. It is, as a rule, a perfectly dangerous quality, for the suspicious man suggests by his very manner the very acts that he fears. It arouses antagonism and makes smooth working difficult.

CHAPTER IX

GOODS ON THE INSTALMENT PLAN

MAIL order business is very simple in its book-keeping and financial arrangements, when the

recognized rule is that the cash shall be received before the goods are despatched. There is practically no need for ledgers, and the simple question of finance is limited within the narrow confines of actual income and outgoings.

But a very large section of mail order business is now being done on credit terms. The procedure is for the goods to be despatched after the first payment has been received and the subsequent amounts are paid monthly.

From time to time we hear of a rather ingenious (but not really businesslike) variation. A firm will offer to sell on instalments and receive a first payment and the agreement to purchase, but no goods are despatched.

When the indignant customer writes to ask about them the stereotyped reply is made that the goods will not be sent till all the payments are made, and the idea of the instalments is to assist the customer. Of course, at any time he can send the balance and receive the goods.

Now this is almost precisely the same method as used in the well-known coal and goose clubs, in which the members pay in their weekly contributions and, at the end, benefit in the "share out."

But it is not the accepted method of the mail order business and, whether deservedly or not, lays its attempters open to suspicion.

The method must be referred to in this book, as some of the readers may have serious thoughts of engaging in business of this kind. There is nothing wrong in the idea. It is the application of a time-honoured method, but as applied to the trade under review, it would be a hopelessly mistaken policy.

There are occasions in trade when a man can depart from traditional methods as, for instance, the first cash grocer in a sleepy country town fighting long credit with his new weapons, or the first multiple shops that kept no branded goods but their own.

But, in the case before us, the expectation is too deeply ingrained to be easily removed that, when a firm offers to take payment by instalments, it shall be *after* and not *before* the goods have been delivered.

The pattern of the instalment sale is the rented house—not the saving Christmas club. The idea in the mind of the purchaser is that he pays part of his money as a kind of rent for present possession and satisfaction, not that he is inconveniencing himself in the present for future advantage.

The beginner is advised not to attempt this variation of the system, or at all events if he does so, to indicate clearly on every advertisement the working of the plan.

Goods on Approval.

There is also another variation which has much more to be said for it. This is to offer to send goods on approval for a month's trial, the amount

being payable at the end of that period, or the goods returnable.

Nearly always, however, it is found that this plan works best in connection with the instalment system. It becomes almost obvious that it is better to receive payment in this way than to have goods, which have been in use for a month, returned to stock.

Where business is done on the "approval" system, unless there is any strong reason otherwise, goods should not be treated in the same way as actual sales until a first instalment has been received. That is to say, a record should be kept of such goods, but a ledger account need not be opened until actual business is done.

There are exceptions to this rule. One firm claims that only 1 per cent of the people who take their article on a month's trial, return it at the end of that period. In a case like this it is the cheapest and easiest method to treat every case as a sale the moment the goods are despatched, and adopt a system of crediting the amount in the few instances where the goods are returned.

Where credit is given, accounts should be kept in books, not on cards. The card index is very useful in the mail order business and much help can be gained from these movable slips. There is an advantage in the fact that they can be moved.

But the essence of book and account keeping is that entries are not movable—that they are fixed and permanent; that neither whim, nor negligence, nor intention shall be able to destroy the record without discovery following.

Cards may sometimes be used in connection with overdue accounts, but this is rather a questionable method. The function of the card index in the trade is to assist salesmanship and, though in selling it is useful to know if a client owes money, this first object should not be lost sight of.

The Ledger.

The simple old-fashioned ledger with debit and credit cash columns is excellently suited for mail order business credit accounts. An advantage can doubtless be claimed for the loose-leaf system—that, in a method in which each transaction is definitely settled and done with when the last instalment is paid, the loose-leaf ledger permits of the removal of used pages better than where the account is continuous.

One advantage claimed for the loose-leaf ledger may be noted here.

It is suggested that two ledgers be kept. One of these deals with ordinary transactions where payments are duly kept up, the other ledger is for accounts of a more troublesome nature.

The suggested method of working is, that as soon as an account begins to get consistently behind, and indicates an unwillingness of the buyer to pay unless some entreaty or pressure be

used, the page bearing it shall be removed from the ordinary ledger to the overdue account ledger.

Certainly the system has much to commend it. It is handy to have overdue accounts together, and where the business is so large that several ledgers are necessary in any case, it may be convenient to bring them all together in one volume.

But in a smaller business the division is unnecessary.

More than this it establishes a wrong principle. The idea of having different accounts kept in different places, because of their grading, is always likely to lead to confusion. If slow accounts are moved into one ledger, there is no logical reason why very slow accounts should not be removed from that second volume to a third, and so on indefinitely.

The ledger after all is the record of the present standing of credit accounts, and it is better in the average that one uniform rule be adopted as to the place where each account shall be looked for. It is a hard tax on a book-keeper to guess the standing of a man before he can find where his business is recorded.

Overdue Accounts.

Where one ledger, or a series of ledgers run on one system, say, alphabetical of names, is in use, it is advisable to have some means of turning at once to overdue accounts.

For this purpose a list of folios or names is often sufficient, a list that can be written up to date from time to time. This list would simply enable the account-keeper to turn to the ledger account; it would not itself be a record of the action taken.

The writer advises that the ledger account itself be the place for recording all actions taken to obtain payments. In some cases this can be done in pencilled notes to be erased if not of sufficient importance to stand as permanent records.

The idea is that the ledger account shall be the one unfailing place where the fullest necessary information can be obtained at a glance as to the present condition of an account.

It does not make work easy when constant references have to be made to other records when an account is under consideration.

Collecting Overdue Accounts.

The slow payer is the problem of the mail order business. In the majority of other trading concerns there is usually a direct method of getting in touch with buyers which does not here exist.

Wholesale and retail dealers send out travellers, or their buyers are in easy distance.

But the mail order business may be conducted among a scattered area from John O'Groats to Land's End, and no two buyers be in the same town.

Although all travellers for firms do not collect accounts, nearly always they are available to

perform some kind of service to assist matters when an account is in a difficult state. In probably half the world of commerce it is the traveller who secures all the good that can be obtained from a slow payer.

In other cases a traveller can use persuasion and argument and get satisfaction that would not otherwise be obtainable, even though collecting in the ordinary way might be out of his province.

The mail order owner has no such living messenger to help or advise him; he is sending out his S.O.S. at long distance without much chance of knowing how his overtures are being received at the other end. He may be regarding Mr. Smith as a criminal when Mr. Smith is simply too lazy to write a cheque, or pleading vainly with Mrs. Gerald Robins to remit the money, and all his appeals are going to Mrs. Harold Robins across the road who doesn't owe any.

The mail order trader must collect his accounts through the post; failing that he has to fall back on the ordinary methods of the law or the assistance of professional collectors.

The methods by which slow payers are hastened are numerous. Nearly every firm has its own formulae, but the idea running through them all is rather similar.

Reminders.

The first reminder, sent when a remittance is overdue, is gentle. When this fails a rather more strongly-worded epistle is sent, and in three or four stages the threat of legal proceedings is reached.

Nearly always these notes are either printed slips or multi-copied typescript letters.

It would not be difficult for anyone to draft a series that would compare with most of those in use, and with the majority of clients the gradually increasing earnestness has either the effect of bringing the money or showing that if recoverable at all, the amount can only be obtained through legal means.

The writer would suggest that one improvement might be made in some of these letters. There is such a thing as appealing to a man's better nature, even though one fears he may have none. The tone of the collecting letter can be made a little too mechanical and inhuman, with the effect that an embarrassed creditor either reads it defiantly or in a crushed and broken spirit.

The collector of overdue accounts who had recently taken on the task in a big firm gained rather surprising success. He was asked to explain his method.

"I adopt a genial, kindly manner," he explained, "and it seems to pay. In the first place, I never waste my time by sending out any of those printed forms except the first, which states the account is overdue.

"After that I get hold of a nice phrase or two,

work it up into a letter and send it all around. When you tell a man that 'we know times are very difficult, but we must all endeavour to help each other,' it may make him write you down as a philanthropist and not worry, but equally it may make him say: 'Hang it all, these people seem rather decent, I think I *must* send them a sovereign.' To ask a man how you can assist him to pay is also a good plan to suggest that he need not send *all* the arrears but a remittance of some kind would keep the account fresh, is another good plan."

This man worked on the genial kindly plan as far as he possibly could. It brought good results.

Legal Proceedings.

A firm is often puzzled about using the pressure of the law. Some people go so far as to suggest that by the time an account has to be collected in this way it has ceased to be worth collecting. Against this may be stated the experience that some people will never pay, however often they are written to, but will remit at once the moment a threat of legal proceedings is made.

Local Conditions.

In keeping a watch on overdue accounts it is helpful to be well informed as to local conditions.

There are districts in England where the earning power of the labouring classes is subject to great fluctuations and where people are honest but not thrifty. In some mining districts, for instance, large numbers of people run up debts at tradesmen's shops in times of depressed trade, and honestly try to pay up when times are better.

The working classes in many of these places buy goods by post at times when they are well able to afford to keep up the instalments.

A wave of bad trade comes and immediately they are unable to earn enough to keep them in absolute essentials.

It is out of the question for a mail order firm to get its instalments at such a time. Even were the aid of the law obtained there would be no machinery capable of recovering it. But the debt would not necessarily be a hopeless loss.

Here a knowledge of local conditions would assist the collection of accounts.

CHAPTER X

THE CARD INDEX

THE card index can be a most powerful weapon or useless lumber. In a mail order business it is of enormous value when kept up to date and efficiently managed.

As already suggested, its service should be used as part of the salesmanship, rather than as part of the book-keeping department. The right place

for all money transactions is in books. A card, and particularly a small card, can be misplaced or lost, or even wilfully removed, but a book has permanency.

Some readers may smile at the very thought of such an obvious truism being put in print. "Who would dream of keeping accounts on ordinary plain cards?" someone will ask.

But there *are* people who attempt to do this. There is a firm supplying goods on the instalment system of payment that commenced by keeping records in this way. As each article supplied was sent out a card was commenced and the payments received were entered, or rather crowded, upon it. The idea was that "a card index ledger" would serve as well as any other ledger. Needless to say, this firm found speedy cause to adopt a more old-fashioned and orthodox method.

The writer does not know how many people have attempted the same plan, or how many still persist in it. Very probably the number is small. But as this book is specially addressed to the beginner it would be a mistake to omit reference to the method.

These remarks do not apply with quite the same force to the "loose-leaf ledger," as here the liability to the loss of cards is not as great. But the present writer thinks that books are safer still.

Alphabetical Arrangements.

The two chief forms in which card indexes are arranged are: (1) alphabetical of names, apart from all geographical considerations; and (2) in order of towns first, and then the cards of each town arranged in order.

There are difficulties in both systems. For instance, when a firm has many scores of thousands of cards to keep, the alphabetical arrangement in order of names might involve a thousand cards for the Smith family, and Mr. Alfred Smith would be a long way removed from Mrs. Winifred Smith. These two, husband and wife, writing from the same address about the same purchase might involve the clerks in difficult problems, whereas, the two people of the same name, writing from Horrabridge or Ventnor, would more easily become associated with each other in the minds of the clerks because their cards would be closer together in the drawer.

Equally when a strict system of filing under names is in use, and a gentleman writes sometimes from his office and sometimes from his home, it would be easy to presume that there were two gentlemen of the same name, and for a confusing tendency towards overlapping to result.

The experience of some large firms doing business solely by post with very extensive card systems, is favourable to the index being arranged throughout in the alphabetical order of names without any attempt to get them arranged in separate towns, as in this way old clients are

immediately identified in spite of changes of address.

Geographical Arrangement.

Where correspondence in the first place is likely to result in personal calls being made, the geographical arrangement is better. A firm intending to issue an encyclopaedic work payable by instalments, and having agent-canvassers in different centres throughout the country, would

should be given a list of the "prospects" in the district to which he was going, so as to make other calls.

The partner responsible for arranging the index considered that a bold division into *counties* would be the most useful method. In theory the plan seemed sound, but in practice it broke down absolutely.

It was discovered that many people rely on intuition and memory in deciding in which county



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almost certainly use its card index in relationship to its canvassing campaign. That is to say, Mr. Pander of Exeter would be filed under the letter "E" instead of under the letter "P."

Such a firm would naturally desire to have all its Exeter clients together.

It is wise, however, when such divisions are necessary, only to attempt a kind of filing for which each communication received supplies the necessary information at a glance.

Some time ago the writer saw in operation a large filing system in which it was necessary to be able to extract the names of possible or actual customers in any district at very short notice. The rule of the house was that, whenever a special journey was taken by one of the salesmen, he

a town or village may be, and that it was not easy to get the whole staff to refer. Letters from Bristol were sometimes carded under Somerset and sometimes under Gloucester. Thornton Heath was held to be in London by one clerk and in Surrey by another. Watford appeared in three counties and only some of the cards in each.

When the system utterly collapsed, which it did at last, the carding was continued on the simpler plan of using the name of the town, and making a few group lists of towns and villages for the use of the special journeys.

In the geographical division there is, of course, an alphabet within an alphabet, the names in Bath or Newport being first found under "B"

or "N" and then falling into their places according to the usual order of names.

Special Sets of Cards.

In the mail order business, it is frequently useful to draw out a selection of names for a certain purpose and to keep them apart. Thus: a special campaign has resulted in a thousand replies being received from among many thousands of old buyers. There is to be a vigorous follow-up campaign, and it is necessary for its purpose that the people who showed enough interest in the first place to write to the firm shall be available for weekly review as successive letters are sent to them.

Two methods readily suggest themselves. The first is undoubtedly bad; that is, to remove the cards from their places and keep them in a special box while the campaign is being continued, returning them to the general index when the campaign has closed.

The obvious objection to this course is that the cards are not in their proper places during the effort, and all those difficulties are likely to arise that result from an index being scattered.

The second method is to fasten a "signal" to each card affected. The "signal" is a little clip, or flap, that projects above the card and at once indicates the particular card affected. These signals are useful for many purposes in using a card index.

But when the number of cards is very large, and these are in different stages reached on the different cards, this method may be too cumbersome for practical purposes.

Companion Card System.

A very good method, used with great success by some firms, is the companion card system. In this, two cards are used for every name and in ordinary circumstances they are both in the index together.

It is important that there shall be a difference between the two. This can be secured by having different sizes or different colours.

One of these cards is kept permanently in its place and only removed from its position to be written up in the ordinary course. The other is the travelling card and is available for such purposes as we are considering.

Now just to see how this works out.

There are 5,000 cards in the index, and to each of the persons mentioned thereon a letter has been sent opening out a new campaign of a rather costly nature. It has been decided that the "follow-ups" shall be limited to the 800 steady buyers and to such others of the remaining 4,200 who reply to the first letter. The campaign will be brief and energetic.

The 800 "travelling" cards are withdrawn from the index, some recognizable mark being made

on their "stay-at-home" companion cards. As replies are received from others the "travelling" cards are also removed.

Thus a new temporary index, available for one purpose is made. The campaign is carried through and completed, and then the net results are duly recorded and the "travelling" cards are returned to their original places in the general index, available for similar treatment in future cases.

Another division that suggests itself, specially useful where only one card for each name is the rule, can be made at the commencement of a new campaign.

Thus, supposing a firm advertises largely that an illustrated pamphlet will be sent free on application and 5,000 such applications are received. Though the "follow-up" actions may also be applied to all the clients in the existing index, it is decided to judge the result with the 5,000 new applications quite apart from the older clients.

Till the campaign is concluded, it is a simple and reasonable act to keep these 5,000 cards in a separate index. But when it is concluded, the object has been attained, and there is no further reason for two sets of cards being kept separate. The right course then is to let the old index absorb the new cards.

The Up-to-date Index.

A card index can easily become a cemetery. Six months will take much of the freshness off any list of names and addresses.

Each intimation, however, should be dealt with promptly. When an envelope is received back from the dead letter office, marked "Gone—no address," it is obvious that some action should be taken by the person responsible for the index. In the case of a valuable customer, it may be worth while to institute enquiries. Public men can be traced through the offices they hold, business people through trade journals or through fellow tradesmen. At all events, there is no justification for leaving the card unmarked so that further action leads to a futile waste of paper and postage.

Similarly, when communications have been sent year after year in unbroken succession, and no sign has been made by the recipient beyond an initial enquiry, the "prospect" should be dealt with heroically and further losses cut. A name picked at random from a directory is a better prospect than this, for there is the gambling chance that such a name may become a good customer.

Mail Order Publicity.

Advertising is dealt with in another section and many of its methods and rules are applicable in the mail order business, so that it is not necessary here to cover the whole ground.

But in this business there are a few special points to which reference should be made.

The first of these is comparatively small and unimportant, affecting only a small section of the business. This is the use of an article as a means of advertisement. The subject is important in relation to the charges and expenses that must be put on to any advertised article.

It is a good rule of the trade that each sale shall be profitable in itself when the business is fully running. Thus, a firm selling gramophones by advertisement, shall expect that when its business has reached normal proportions every gramophone sold shall bring in enough money to pay for the cost of the article and all expenses connected therewith, including the proportion of advertisement charges that should be allotted to each instrument.

If a firm were selling one kind of article only, this rule would be essential. In such a case, unless each sale showed a profit, it would be futile to expect a profit on a number.

But supposing a firm is supplying, not one article, but twenty, its method of advertising might involve that one advertised article would be entirely or partly relieved from any publicity charges in calculating the price.

Thus, A and B sell musical instruments of all kinds on the hire-purchase system, direct from the warehouse to the home. They are believers in illustrated catalogues and "follow-up" letters, and it is necessary for them to get the names of people who are likely to buy musical instruments.

To do this they decide to offer a very cheap line to the market. So the "AB Zither-harp" is offered at 2s. 9d. carriage paid. This is remarkably good value and it is the only instrument they advertise in the press.

Everyone who buys this cheap zither-harp receives a price list and is further reached by letters, pamphlets, and circulars in which a whole range of musical instruments is offered.

Now it would be absurd in a case like this to suggest that in arriving at the price of the zither-harp, the firm should allow for the cost of advertising, and that this whole expenditure must be borne by the zither-harp.

The fact is, the harp is itself a form of publicity. The object and intention of the sale is to get the names of suitable people to circularize so as to sell other goods. In consequence these costs fall, not on the one line indicated, but upon the whole business.

Those who are familiar with the workings of a campaign in which reliance is placed on a "follow-up" system, are well aware that it is a good start to get a list of suitable names, that it is better still when the people on the list can be induced to write to the firm, and best of all when an actual transaction takes place in which the client is satisfied.

This method secures all these ends, if the advertised line is really of good value.

"We always reckon to spend every penny we receive through newspaper publicity in further newspaper advertisement," said the head of one such firm.

Obviously, if all the money that comes from this source be expended, no question of percentages arises. The firm simply gives the article away in order to get the right to approach a satisfied customer with the real proposition.

CHAPTER XI

THE FOLLOW-UP SYSTEM

REFERENCES have been made throughout this section to what is familiarly known as "follow-ups." This is one of the principal forms of mail order publicity and in consequence it should be noted rather fully. It depends more largely upon the letter-box than the daily press, but uses the services of both.

Getting the Names.

The first task is to get the names of likely buyers. These may consist of: (1) present and past customers; (2) persons obtained from lists suitable for the purpose; (3) persons who have been induced to purchase a small article of excellent value, offered through the press; or (4) persons who have been induced to write, through the means of advertisement, for a free booklet or in answer to some similar offer.

The firm that has already sold a thousand gramophones on the instalment plan, in offering its new seven-reed organ would naturally include all the satisfactory customers of the gramophones. The person who has completed or nearly completed a purchase in this way is often in the mood to take on a new liability. The instalment habit, like other habits, once begun, is difficult to break.

Lists of suitable people often suggest themselves. A firm, for instance, bringing out an illustrated work on *The Stately Homes of England*, would naturally address the owners of the great estates mentioned. The peerage would also indicate names of people likely to be interested. If any reliable list of the "new rich" existed it would be worth including.

Those satisfied with a previous transaction, however small, would constitute a good list in themselves. An article that remains in the home, whether a tea-tray, a table-centre or Tennyson's Poems, is a constant reminder and advertisement. The letter from the firm that supplied it comes to a mind psychologically prepared to renew the transaction on an even larger scale.

The most popular method of all is the use of the press in conjunction with an offer of some

kind. Mostly this is a free booklet. Sometimes it takes the form of entries for a competition.

A firm commencing such a campaign as we have indicated, cannot safely begin to take action till the whole of the plan has been perfected, although in the later stages it is well to allow for variations of plan. It is useless to go to a great deal of expense to obtain a large number of names and addresses, unless preparations have been made to deal with them as rapidly as they are received.

Hence, this first step can only safely be taken when the second is ready. Thus: if the plan is to send an illustrated booklet to all people who apply, it is useless to ask for names and addresses through the press until the booklet is at hand, ready for immediate delivery.

Means of Publicity.

Of the various means of publicity by which the public is invited to write, it is unnecessary to dwell at length. The reader is probably aware of the methods adopted by some firms. Probably the best examples that can be taken are from among the advertisements of firms issuing expensive books obtainable direct from the publishers.

When a new encyclopaedia or history is to be issued at a cost of some guineas a set, the press is suddenly inundated with whole-page, half-page, and quarter-page notices calling attention to the wonders of the new work. If a selection were made, over many months or years, of the outstanding advertisements that have appeared during that time, and the public were invited to state which were the most attractive notices, it would probably be found that these advertisements would come high on the list, as they are nearly always striking and attractive.

This is largely accounted for by the fact that a book is, in itself, a subject of interest, and the compilers of the notices have all their material for forming a good address, ready to the hand. But the explanation does not cover the whole case. The reason is also that the firms who do this kind of work are nearly all masters of their art and regard this initial step as the most important act in all the campaign.

In consequence no expense is spared in the preparation of the matter, and the very best minds available are brought to bear upon it.

In many campaigns, this act is the most costly of all the separate efforts. Newspaper space is expensive and when an advertiser is dealing with publicity charges that may run into hundreds of pounds for a single insertion, it is easy to spend a very large sum.

The beginner, of course, will not think in such big figures, but he may be wise to retain the same sense of proportion, and in initiating a venture of this kind, allot a substantial proportion of what he intends to spend in this first and most important effort.

It may not be necessary for him to use newspaper publicity at all, as in a "follow-up" campaign the object of press advertisements is to get names, and where a campaign is being worked on a small scale, such lists are often available from other sources.

The Booklet.

When a firm advertises that a free booklet will be sent to all applicants, the case is hardly met by sending a price list, however daintily and attractively such a list may be got up. A price list may be a booklet, but it is not generally understood in this way.

The advertiser must be careful at the beginning of the campaign not to irritate possible clients by what looks like a deceptive description.

An appeal is made to the desire for "something for nothing" in a great many minds. The people to whom such an appeal has most interest, may not be the best kind of buying public in the aggregate, but it contains a large percentage of men and women who have curiosity and who can be induced to become buyers.

Hence, if the publicity notice indicates that a booklet of beauty or interest will be sent to them, the promise should be honoured and they should receive a package worthy of attention for at least a few minutes.

This booklet constitutes one of the best opportunities for what is called indirect advertising. That is to say, it should be a work of some interest in itself, but linked up to the main proposition so that it is almost meaningless without reference to it.

The public will not resent the receipt of a booklet, however small, that contains a story and pictures interesting enough at all events to be passed on to a child to read and perhaps treasured awhile. The fact that the last half of the booklet contains businesslike descriptions of the work that is on sale, and that a slip is enclosed for signature, will not be objected to. The post has really brought "something for nothing," however small may seem its worth.

Attractive Letterpress.

In the same way a firm, offering a free booklet in connection with some article or commodity that it is putting on the market in this way, is wise to give rather more than mere business information when sending out the promised pamphlet. The letterpress can be of very simple character, and it can be very closely associated with the subject in view (in fact, the nearer it comes to it, the better), but it should be a gift up to the extent that it really offers information, or beauty, or entertainment.

Thus: a firm in Sheffield offering to send a complete case of table cutlery and plate on the instalment plan, that commences its campaign in

the manner under review, has quite a number of subjects capable of interesting treatment ready to its hand.

There is, for instance, the history of Sheffield with illustrations of the principal places of interest. There is the history of the firm itself. There is the story of the cutlery industry. There is the story of the history of man in his relation to metals,

The pamphlet loses its value if it does not link right on to the proposition. There should be no difficulty as to what the recipient has to do. There should be the order form enclosed and all information as to the payments and the liability incurred.

This pamphlet should be on good paper and well printed. This does not mean that the world



Photo

Kealeys, Ltd.

GENERAL OFFICE OF MEDICAL AND LABORATORY GLASSWARE MANUFACTURERS
(Messrs. R. B. Turner & Co.)

tracing his life in the bronze age, in the iron age, and in the steel age, and reaching cutlery in its last stage.

Needless to say, any of these methods of approach could be made to lead aptly and in an interesting manner to the subject in hand.

If a rather more immediate and direct attack upon the imagination were considered desirable, the actual article offered could be dealt with in a manner worthy of at least passing interest from any reader. The methods of manufacture, of packing, of transport, are all themes that a newspaper would consider good subject-matter for its magazine page and are fitting for the purpose.

must be ransacked to find the most expensive material, or that the highest possible price must be paid for pictures and printing. But of its kind the pamphlet should be good.

The Direct Advertisement.

In the indirect form indicated above there is the danger, which should be guarded against, that there is a large number of people who are not pleased when a direct question appears to be met with an evasive reply. It must be recognized that a man simply intending to buy a set of cutlery, and writing for a descriptive pamphlet, may feel himself to be treated in a childish manner if he

receives, in answer to his application, an illustrated history of man in the iron age.

This kind of man must be catered for in the pamphlet as well as the one whose mind is not so definitely made up.

In consequence, though the story may commence right away on the first page, there should be some indication that the brochure is out for business, and that the impatient buyer can skip the introduction.

This is a subject for technical arrangement that need not be entered upon here. The point is that in drawing up such a work the two classes of readers should be borne in mind, so that the advertisement may be indirect, but not deceptive or irrelevant.

In the same way, where such a campaign is well organized, the first newspaper advertisement, though chiefly aimed at getting a list of names of interested people and mainly judged by its success in this kind of drawing power, is also aimed at getting an immediate number of direct orders. "Write for the free booklet" may seem the real theme, but an order form is usually attached.

When the list of interested people has been obtained, the campaign proceeds along the lines of usual "follow-up" systems with letters at intervals.

CHAPTER XII

OBTAINING CAPITAL FOR EXTENSIONS

A GROWING business requires increased capital. There was a time when the trader, in almost any line, might extend his operations indefinitely out of profits. But to-day when expansion is sometimes remarkably rapid, this is scarcely possible.

Financing a successful business is very much more interesting than financing a tottering or struggling concern. But none the less there are some very serious problems involved by success, and one of the chief of these relates to the fact that a growing business expands every way.

It requires more room; new furniture and fittings must be bought. It involves a heavier stock. It means a larger amount must be locked up in giving credit.

When prosperity comes quickly the profits will rarely finance the added business.

Courses Open.

There is a choice of the following courses—

1. To change the method of trading as, for example, to cease giving credit, or to reduce its length.

2. To restrict yourself to the present or a reduced turnover.

3. To obtain new capital.

The first of these is difficult and perilous. When a business man has found a method of trading which is profitable and in many ways satisfactory, he acts wisely in pursuing his policy with as few changes as possible.

Moreover, such a change as the reduction of credit, or selling for cash only, postpones but does not remedy the fault. Unless it enables him to build capital quickly, every increase of trade tends to increase the amount he owes to creditors and to lessen the relative size of his capital.

The second remedy goes against the grain. It is not in human nature to be satisfied with a turnover of £500 a week, when trade to the extent of many times the sum can be obtained.

It must be recognized, however, that there are many business men who display remarkable courage and restraint in this respect. "I don't want to get out of my depth," spoken by a solvent and careful trader, is a phrase that none of us can hear without respect. Some of these men lose great opportunities, but probably in many cases they are wise; as bringing new capital into a business may bring new problems with which the proprietor may not be qualified to deal.

It is with the third point that we now deal.

Ways of Obtaining New Capital.

Although there is in this book a special section which deals with the financing of business, a few notes on the matter are not out of place here. In considering the methods of obtaining new capital, we must first deal with that of taking into partnership someone able to bring in the necessary amount of money.

Partnership.

In taking a partner, know something about the man himself. This knowledge is not sufficient when it is limited to his business character, for partnership has its psychological aspects, being as intimate and personal as almost any relation can be.

Temper, compatibility, habits and tendencies should come in for some kind of consideration. There are people in this world who are unfitted to work with their fellows, and who have no sense of that "give and take" necessity that is needed if two are to go together in double harness.

There are secretive men who can only work their own plans, and who upset everyone else's; there are quarrelsome men who bring unhappiness wherever they go and who would cause every decent employee to throw up his work in a week; there are erratic folk who cannot be depended on; there are untruthful people who would involve the business in a network of romance and illusion.

Know the history of a partner.

Success is not sufficient. It may be success of that unpleasant kind that is always at some other person's cost—and you may be the person.

he has taken any active part in the business, he may find he is liable as a full partner.

Where security of this kind is desired by an investor who wishes to benefit from profits, instead of merely from interest on money lent, the safest and best course is to make the business a limited company.

The Private Limited Company.

Fuller particulars as to the methods by which a limited company is formed, the laws governing its shares, and the number of its members will be found in the section devoted to the subject. Here the company laws are referred to only as a method of bringing in new capital, or protecting the private interests of those whose capital is already invested.

There are two parts to the formation of a company: (1) the plan of the company as regards capital that is to be invested, control, directors, comparative values of shares and arrangements for debentures; (2) the legal business involved in carrying the plan into effect.

It is important to keep the distinction in mind, for if the object is to bring in more money, the mere fact of having some papers drawn up and stamped will not achieve it.

In order of importance, if not of time, the plan must be made first. It is easy to get the legal and technical business done afterwards. Of course, there is no harm in having a preliminary talk with a solicitor; indeed, it is possible he may be able to suggest means of getting the money.

But before the solicitor begins to draft legal documents, the plan should, at least informally, be in shape as regards money.

There will be one or two meetings and probably friendly disputes as to the rights of the new money as compared with the old, the powers of voting and the salary to be paid for management, directors' fees and similar points.

When so many men are putting up so much money for a specific purpose, all these questions are subjects for settlement between themselves. The lawyer's work will be to put them into legal shape, and to provide for powers for similar future acts to be carried through without difficulty.

The Companies Acts are wonderfully elastic and can be made to fit almost any reasonable commercial and financial plan.

Emphasis is here laid on the need for regarding the financial plan as more important than the legal work.

The reason this is stated is because the formation of a company is regarded by some traders as a way of getting capital. Strictly speaking, this is not the case. The capital must be obtained as a separate act, either by private arrangement or by publication of a prospectus. The actual formation of the company is legal business,

dependent upon the success in obtaining capital or promises of capital.

Some traders, when they plan to bring in money in this way, regard their work as almost completed when they have been to a solicitor and have told him to proceed. As a matter of fact it has not begun.

Some lawyers, possibly with the mistaken notion of helping, possibly from other causes, may encourage the client to proceed and form his company first. In doing this he may defeat his own ends, by omitting some important feature which a very suitable capitalist would like to have inserted, and either lose the investor or necessitate the legal work being done over again.

We are speaking here of a private limited company to include a little group composed of the original owner and one or more investors. In this case the arrangement between the contracting parties must come first.

The arrangements under which investors of this kind will join a business are many. They affect the kinds and powers of shares and debentures.

Before passing from the subject of limited companies as a means of facilitating finance, reference should be made to the company that is limited among creditors, not necessarily as an act of bankruptcy, but as a friendly arrangement, to assist a business that has not sufficient capital, and to secure continuity of its trade.

This is done sometimes when a business has made an unusual loss or has had a bad season.

The proceeding varies. Here is one plan.

The debts were changed into debentures. The two chief creditors nominated a director, to act with the old proprietors. He had practically no power of interference while profits were made and interest paid, his sole business being to watch the interests of the debenture holders.

Mortgage Debentures.

It is sometimes possible to obtain money by forming a company and by arranging with a capitalist or a bank for loans on debentures.

This is a step that should be taken with caution, because such debentures really mean a pledge or mortgage of the liquid assets of the business.

When a business possesses property, such as machinery, plant, valuable leases or freeholds, there is no objection to the course, and this is frequently a convenient way of offering security. But where a business has large debit and credit transactions, sudden action of the debenture holders might put ordinary creditors in a very unfavourable position.

It has been said that a debenture on a company's assets is like a bill of sale on one's furniture. It is sometimes worse than this; it is like a bill of sale upon the furniture dealer's furniture.

Needless to say, the issue of debentures by a

small limited company is not helpful to credit. Many large supplying houses decline to give usual trade facilities to concerns thus mortgaged.

The Public Company.

Particulars as to methods of flotation and the legal machinery of public companies are given in another section. The subject is introduced here only in relation to financing a business.

The man who has used £500 or £50,000 of his own money with advantage is justified in asking the public to share in his enterprise.

Some men have the gift of creating large and prosperous concerns which grow at a greater speed than the capital.

It is only just that the trader whose accumulated profits over twenty years total to, say, £100,000, should be able to place a portion of the sum in other securities. It is also reasonable that, having done so well with his own money, he should be trusted to operate with other people's.

The great world-famous business frequently looks to the public for money.

There is business policy in the move. The shareholder often becomes a good customer.

The original owner, or owners, having many capitalists interested in his venture, is in a stronger relative position than he would be with a few partners with heavy money interests, and the successful conduct of the business may depend on his having a free hand.

It must be admitted, of course, that the history of public flotations has not been a spotless record, and "industrials" are often open to as much suspicion as any other class of shares.

The firm that is known to the public has the best advantage in raising money this way, and can usually offer shares at terms very favourable to itself. A firm owning a brand, for instance, and advertising continually in the ordinary way of trade need not offer quite the same inducement as a less public business must.

Making public appeals for money by prospectus is almost a profession in itself, and expert advice is desirable before a public notice is issued. The solicitor, of course, should approve every sentence before it is issued, but the solicitor is rarely the right man to draft this appeal, as he cannot very easily be advocate and judge at the same time.

Flamboyant and highly-coloured language is not good. The sober story, simply told, but conveying with accuracy the optimism that prompts the move, is more telling with the investors. Restrained and accurate statements backed up by facts and figures lead to conviction.

Financing a business on public money opens the way to a whole world of activities that are more financial than commercial, and sometimes leads a business man to discover himself possessed of abilities he had not suspected. On the other hand, it sometimes takes a straightforward trader

out of his depth, unless he is careful to understand every operation that his advisers recommend.

Finance, with a trading concern behind it, especially a large and growing concern, can easily become a marvellous network of involved intricacies, difficult to analyse by the lay mind. Such a concern split into parts, or building up subsidiary companies, also by means of public money, so that the linked branches may carry through deals with each other, may be made to appear far different from what it really is.

Companies that appeal for more public money almost every time they pay a dividend may be really overflowing with prosperity—but they make the world wonder. Some of them are sound enough, perhaps, but the example of the method is dangerous to the ordinary business man.

Overdraft on Security.

Before passing from the subject of obtaining capital for business, some note should be made of the uses of bank overdrafts on security.

In the majority of cases considered above this avenue will have been explored before outside help has been sought, so rightly this subject should have taken preference of partnership and limited company methods.

But there is a value, quite apart from obtaining permanent capital, in the use of bank loans against security.

Thus, supposing a trader has £1,000 which he needs to use twice in the year to purchase season stocks and only for a few weeks is the full sum in use, the rest of the time it is either drifting back to the bank or lying idle.

Obviously, his best plan is to invest that sum in such security as will be a source of revenue through all the year, of such a nature that he can obtain temporary overdrafts that shall only be a charge on him during the months or weeks he is using the money.

A retail trader who secures his own premises achieves a double object in this way, as he has security of tenure and the deeds are favourably viewed by bankers.

Banks are usually very generous over temporary loans where the account is active and the trade is good.

Bills of Exchange.

Bills of exchange are used by some firms for purposes of raising money, or of getting long credit. A three-months' acceptance given in exchange for a parcel of goods is not due for payment till three months and three days have elapsed. The firm it is paid to can "discount" it, that is, obtain the money from the bank by paying interest upon it.

Where bills are given, great care must be taken to provide for their payment on due date. If this is impossible they should be renewed in a

proper manner and on no account be allowed to be dishonoured.

Bills are used in some trades extensively, but when they become a means of raising money or unduly extending credit the fact becomes known and is hurtful.

Trading firms using bills of exchange that do not actually represent goods are looked upon with doubt in banking and trade circles.

CHAPTER XIII

THE LESSON OF THE TRADING ACCOUNT

SOME traders' finances are all wrong at the start, but this is usually a fault of their plans. When a hopeful aspirant sets out to accomplish with a small capital, what would tax the abilities of most people with a far larger sum, it usually means he has not obtained correct information as to how much money he will require.

In the commercial world there have been frequent instances of people who have made this mistake. A swift and adaptable mind may enable a man to readjust his plans before it is too late. At all events, the bigger the error in plan the quicker a man becomes aware of the fact and the better his chance of making a change.

In this chapter it is not purposed to deal so much with making a plan as to how money should be allocated at the start of a business, as with its finances after it has passed its earliest stage.

Though there are many alarming and serious mistakes made by people who enter trade, it is a fair presumption that the majority of those who open a business have planned carefully the finances of the first year.

The writer has met many employees and others to whom the subject "My own business" has been an absorbing theme, and he has been struck with the great amount of foresight that many of these people display. As an indication of this, it is noticeable that many men considering this subject frankly state "I can't reckon to draw any profit the first year."

The conversation of such a person usually teems with such sentences as: "£200 would be ample stock, but I am allowing £300"; or: "I must keep £150 for contingencies. One never knows what may happen."

The great supplying houses are rarely very nervous about the brand-new business, especially in the retail trade. It is the trader who has operated for two, three or four years who is the subject of closer scrutiny when credit is considered, for it is by this time that the man himself is getting to grips with his real problems and his business is beginning to write its destiny.

Two consequences of trading test the financial

ability of the man in business. One is unexpected loss; the other is prosperity.

When a trader has been in business a few years he is able to gauge some important tendencies. By that time he has, or should have, a number of figures before him showing the history of his enterprise in stages or periods. At the commencement these periods should not be long. For practical purposes a Trading Account and Balance Sheet of each six months should reveal a great deal to him.

Here is a series of Trading Account results—

1st Half-year	Net Loss	£122
2nd "	" "	88
3rd "	" Profit	10
4th "	" "	130
5th "	" "	280
6th "	" "	355

Such a series looks comforting. We would like to see other items, of course, to know what increase of stock and credit has been involved to obtain larger profit. But other things being equal, the results seem very reassuring.

Here is another series—

1st Half-year	Net Profit	£80
2nd "	" "	120
3rd "	" "	150
4th "	" "	120
5th "	" "	90
6th "	" "	30

At first glance, there appears to be something wrong here. But possibly it is a fault of book-keeping. One item alone would account for such figures in a perfectly good little business, such, for instance, as giving credit carelessly at the start and not making provision for bad debts, or early unwisdom in buying.

But in a cash business these figures would be alarming and convey the impression that greater difficulty was gradually being experienced in buying to advantage owing to shortness of capital, or that the enthusiasm of the start had waned and the concern was now running itself.

Take another series—

1st Half-year	Net Profit	£120
2nd "	" "	200
3rd "	" "	220
4th "	" "	245
5th "	" Loss	840
6th "	" Profit	280

Here, during the fifth period, a serious misfortune occurred. Prices came down with a run and the proprietor boldly marked down his stock, wiping out all the profit he had made for two years.

This is a heavy capital loss, and here is one of the occasions when financing a business may necessitate bold judgment and resolution. There are some trades that are liable to heavy fluctuations of prices, and the man who enters one of these usually does so with his eyes open and provides for such contingencies.



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PRINTING, BOX MAKING, ETC.

Messrs. Dubarry et Cie

But in the majority of trading concerns prices do not rise and fall with amazing bounds, and when during a few months a loss occurs that equals the profits on two or three ordinary years' trading, it results from some unusual cause, such as loss by fire through under insurance, collapse of trade through a strike, a series of heavy bad debts, flood, robbery or some other unforeseen event.

Effect of the War.

It is not to be expected that the circumstances through which England has been passing during the last eight or ten years will be repeated in the commercial world for many decades. There was a record of continually rising prices during the war, resulting in steady increases in the values of stocks held, an advantage that was accepted as part of the condition of things, and taken as an off-set against many inconveniences. Quite obviously there had to follow a shrinkage in values and corresponding falls in stock values.

The published reports of huge limited companies *circa* 1921 and 1922 revealed a state of affairs that in lesser degree affected small traders as well as big. Only those concerns that could work on rapid turnover saw any prospect of getting back the prices that were paid for many kinds of commodities. Fairly generally, the lowest wholesale price of one date would be the highest retail price three months later.

Financing against such conditions as these scarcely need come into our scope. There was only one piece of sound advice to give to any man entering business just after the war, and that was: "Reckon that from first to last you will lose the difference between current prices and pre-war prices on an average stock."

Thus, supposing a trader had to carry £1,000 worth of stock the pre-war value of which would be £550, he would be safe only if he were prepared to meet a loss of £450 in this way at all events as a set-off against his profits.

The three series of profits, shown above (in which small sums have been purposely used) indicate three sets of financial problems in trade—

1. The satisfactory business with the unusual loss.
2. The shrinking profits.
3. The growing profits.

The Sound Concern and the Unexpected Loss.

When a trader finds his capital seriously affected by a heavy loss, he needs to make up his mind pretty quickly on his future policy.

The first question is: "Can the loss be met by reserves hitherto unused in trade?"

If so, he has no need to readjust his plans unless they include extensions. His course is obviously to continue trading and endeavour to rebuild the loss as quickly as he can.

If the loss cuts into capital used in business, an analysis of methods may be useful.

For instance, supposing he has been in the habit of buying more largely at times than his trade really required, chiefly to take advantage of cheap parcels of goods:

The loss in such a case means that his capital for this purpose is depleted, and that he can only pursue such a policy at some risk to his ordinary credit. Usually, it pays a trader better to be known as regular and prompt in his ordinary transactions than as a bargain hunter liable to be short of cash. No absolute rule, however, can be laid down.

The trader whose unexpected loss leaves him with insufficient capital for his usual purposes must do some hard thinking and, generally speaking, must do it quickly. It is written on the figures that he must obtain more capital or facilities of credit or his business will collapse within a few months.

The various methods of obtaining capital are dealt with elsewhere. The man who has a good Trading Account to show need not fear to use any of these means, because he has been unfortunate enough to make one heavy unusual loss. Investors are not frightened by the exceptional incident. It is the solid nature of the regular business that gives value from an investor's point of view, and the man who can show that his day by day trading is on right lines and of a satisfactory nature really has a valuable offer to make to likely partners or shareholders.

Failing success in his hunt for capital, the next step should be a consultation with creditors. This need not be formal or general at first. He has, for instance, two or three principal supplying firms. A frank statement to one or more of these may result in some arrangement being made, by which he can continue to operate without any very definite change of policy.

In one such case a mail order trader consulted his chief creditor, a wholesale warehouseman, fortunately a near neighbour.

"You can pull through," said the merchant after weighing the case. "If you play fair with me, I will take a risk on it myself. I shall want you to come in every week with such figures as you can bring."

These were some of the conditions—

"You must open no new accounts with supplying houses."

"You must, as far as possible, keep the present accounts at the present size. Thus, if you pay a firm £10 you must give somewhere about a £10 order. In case we fail to get round the corner and, in six or twelve months' time, we have to

consult your other creditors, I want your Bought Ledger to look as much like its present appearance as possible. I don't mind my own account being increased a bit if it must, so that you can save trade discounts, but I am not going to increase it for you to pay out everyone else."

This man had a sound little business. It took nearly two years' "nursing" before he could take it on himself again, but he rounded his corner. It is hardly to be wondered that he

other means of getting money and who is facing bankruptcy. He cannot act entirely as a free agent. The point is that the man with a sound little business, *can* be helped, and often *has been* helped over an awkward point.

Failing this, the consultation with creditors will be of a more usual and legal character. In such a case as the one given, where the business is promising, it is more than justifiable that the trader shall endeavour to retain the business and



By permission

SYSTEMS AND BOX MAKING DEPARTMENTS
(Roneo Works)

Roneo, Ltd.

became a very loyal customer of the man who befriended him.

Of course, there is another side to this kind of story. Some traders in reading about this incident will grimly wonder what kind of reception the man would have had, and what kind of life he would have led, had "Old So-and-So" been the creditor consulted. There are, it must be admitted, some folk in trade who would not be quite as generous as this merchant was, and whose ways with a tied customer would be extortionate. But great traders, as a rule, are not usurers and the prevailing sentiment among them is just.

It must be remembered, too, that the case is one of a man in difficulties, who has exhausted

make the best terms he can with his creditors. But he should not do so on vague, indefinite terms, such as only sow a crop of future troubles.

If a small limited company can be formed, and the debts changed into debentures, he should not tie himself too rigidly to redeem the debentures at a short date. If a composition of so many shillings in the pound is offered, it should be done in a way that will not unduly embarrass his future trading.

It is easy to promise instalments to be paid at a later date on the supposition that past methods of business will apply in the future. But, as a rule, when a man has arranged with his creditors he finds that this is not the case. It has

happened more than once that a creditor by being over-sanguine of success has made his future impossible. It is more honest and more courageous to decline an impossible task at the start than to promise what may be impossible.

But, all the same, in such a case every effort should be made to retain the business. It is the one way in which the trader can make up the loss he has caused to his creditors, for, if on his new start he succeeds in building a sound concern he can become a valuable customer.

It is the way in which the trader can gain for himself as well as for his supplying houses some benefit from his past hard work.

The Losing Business.

In the second set of figures, considered in the previous chapter, is shown the gradually diminishing profits, constituting an increasing loss if the owner is obliged to draw money from the concern.

It takes more than three years in certain cases for a business to turn the corner, and where the proprietor can afford to wait there may be nothing alarming in Trading Account figures such as are shown. These could reasonably be accounted for where a perfectly sane policy is being continued, of expending profits as rapidly as they are made in extensions and developments.

But the presumption in this case is that early profit is necessary and that the utmost available capital has been expended.

A business of this kind may develop some most remarkable gifts for finance in its owner. But financing is scarcely the remedy here.

It has been estimated that in commerce much more nervous force is expended fighting a vain battle with hopeless figures than in any other commercial activity.

The losing business is the concern that sooner or later begins to find the strangle-hold of tightening circumstances crushing it everywhere, and the tragedy of trade is when a man pits himself against the inevitable and by the manipulation of figures tries to stave off, as long as he can, the ruin that must come.

The Business with Growing Profits.

The third series of figures reveals the business with growing profits. It is doubtful, however, if this business, promising as it may be, is of the kind that will create capital for enlargement, and the problem that such a business suggests is whether the proprietor, after a while, shall limit his operations or employ outside money.

Book debts, plant account, fittings and stock have a natural tendency to expand, and the more energetic the trader the more rapidly is this likely to occur. The man who made a thousand pounds last year over and above his drawings, and at the same time increased these items by £2,000 has

put an added strain of £1,000 upon his Capital Account.

If the effect is to make him find it difficult to finance his operations, it is up to him to face the fact at once. Manipulations of overdrafts, bills of exchange, lengthened credit from supplying houses, hand to mouth buying, are no remedies, for his business is suffering from a disease of over-health, and more capital is the only real life blood.

CHAPTER XIV

FINANCE OR SPECULATION ?

IN the early days of moving pictures, a tape-machine always appeared in the merchant's office. The makers of films seemed to get it into their heads that business and speculation were identical ; and although tens of thousands of people engaged in trade visited the pictures, no protest was raised against a bucket-shop "property" being used as an essential to commerce.

In almost the same way, outsiders regard the finance of business as very mysterious and occult, requiring the nerve of the gamester and the qualities that go with success in backing horses.

The business man should not share the opinion, for though business may need forethought and care in financing, the less "high finance" about it the better.

The men whom we summarize under one sweeping and general definition as "financiers" are usually of two distinct types. One is of the slow, cautious, solid kind that does not talk glibly of shares, discounts, debentures, and cover, but hesitates falteringly over such words as though they concealed barbed wire entanglements. Of this kind are bankers and great bill discounters, brokers of world reputation, men who think in millions and think slowly.

The other kind is brilliant—sometimes very brilliant—drawing large sums from a confiding public, spending with princely magnificence, and often at the end explaining high finance to an incredulous receiver or an unbelieving judge.

The fact is, finance is one of those subjects in which brilliance is of doubtful value. It may be good for a man to feel that he *can* be brilliant among his bank books and trading accounts, but more stodgy qualities are usually better here.

Someone has defined finance as the art of making two and two look like five. The banker type of man doesn't try to do it. Half of his deadly solemnity is the result of a persistent belief that two and two won't total a decimal point beyond four.

There are some business men who give a great deal of time to finance, working very hard at it—not from choice, but from sheer necessity—and

the hardest part of the work is usually that which has some relation to unbusinesslike actions.

The man who, with £1,000 capital, tries to do a trade that he should not attempt with less than twice the sum, is often a gifted man at money problems. But his rather slower and duller and less gifted opponent, who heavily decides that he isn't clever enough to make his cash do double work, is able to put in more time at the routine of business.

There is a tradition that many of our greatest firms have been hard pressed for money at one time or another. Probably this is so. But in the long average of years the sound business man makes greater efforts toward having the money ready for the time it shall be wanted, than he does to wriggling out of awkward corners.

Business figures are treated best when they are treated simply.

Brilliant and heroic acts are all very well on occasion, and it may be useful to know all there is to be known about getting long credit or purchasing goods, on bills of exchange, about postponing payments and renewing acceptances. These things are useful to know—at a crisis.

But the continued call for brilliant acts is an intimation that the financial methods of the business are wrong.

Money is the life-blood of trade. It should flow evenly and easily through all the system. If this is not the case the business should be brought to more workable limits or new capital brought in.

Practical Suggestions for Mail Order Traders

By HAROLD W. ELEY

CHAPTER I

NEW "LINES" FOR MAIL ORDER TRADERS

A CAREFUL study of mail order businesses suggests that the greatest business is transacted in dress materials and wearing apparel. There is no real reason for this, and it is almost certain that there is a wide field yet untouched for mail order sales in quite different classes of goods. Once the principle of mail order salesmanship has been accepted, and postal trade proved to be profitable, there is hardly any limit to the variety of goods which can be successfully marketed through the post. It is appreciated that ease of packing and despatch counts for a lot in this connection, but even with small articles—easily and cheaply sent through the post—there is a big variety awaiting the attention of the keen mail order merchant. An analysis of the classes of goods which might be sold through the agency of the post will be helpful—particularly to those who are contemplating a mail order venture, but who have not yet decided what to market.

Chief Items of Business.

Let us see what the public readily and consistently buys by post to-day. Taking the woman-buyer first (and women are the chief supporters of mail order traders) the following goods immediately occur to one—

- Skirts, blouses, and dress materials generally.
- Blankets and sheets and curtains.
- Jewellery.
- Cutlery.
- Domestic appliances.
- Boots and shoes.

These articles do not by any means exhaust the list, but they form the chief items of mail order purchases by women. Now, when one considers the enormous range of household articles and goods in which the average woman is interested, it is apparent that mail order traders should be supplying many more articles than at present. If a woman buys her blankets through postal channels, why should she not buy cushions, table cloths, rugs, towels, gloves, quilts, and stockings? There is no logical reason why postal purchases should

be restricted to certain lines, and it is doubtless because of the inactivity of mail order merchants that the list is so small. A good plan for the would-be mail order trader is to set down all the household goods he can think of—ticking those which are already bought largely through the post. It is surprising what a big variety of goods is still purchased over the counter, and not often by mail order methods. The question of packing and warehouse accommodation is not as serious or vital as at first appears. Carriage is in any case reckoned as a cost, and charged in the purchase price, whilst any mail order trader who has a warehouse worthy the name at all can speedily deal with quite bulky goods.

Domestic Appliances.

The "domestic appliances" in the list comprise a variety of household utensils—such as mincing machines, knife cleaners, patent mops, etc. Why not also sell stair-rods, scissors, buckets, brooms, irons, fireside furniture, ornaments, lamps, and kettles? These are all essentially lines which the enterprising mail order trader can get manufactured for him at keen prices, in special and exclusive designs. There is a telling sales story behind each one, and there is little doubt that all could be made quick-selling mail order lines.

Specialized Lines.

But quite apart from such articles, there are specialized lines which a little ingenuity will suggest. One firm in the north has made good by advertising cut flowers by post—and sales are increasing daily. Flowers may strike one as being too frail and perishable to sell *via* postal channels—but bearing in mind the number of funeral and wedding wreaths which are daily sent long distances by post, there is nothing in the fancied objection. Women in large towns, often with houses where no garden is possible, are big buyers of flowers for home decoration. Not always can they get into the markets and shops to make their purchases, and a mail order merchant who made suitable arrangements with a local market-gardener could very well take delivery of assorted blooms, pack them in some of the patent carriers now available, and mail them all over the country. His advertisements would mention some particular

"collection" according to the season, and packing and carriage would be insignificant items. A good business could be built up among women "hostesses," and it would not be at all surprising to find such a trader being bombarded with telegraphic orders. A small packing room would be all the "premises" necessary, and girls could undertake the packing work. Admirable small space advertisements suggest themselves in

flowering tulips, hyacinths, etc. One has to remember the world-wide appeal which flowers make—an appeal which can be stimulated by advertising until it is a compelling-force, *making* people buy.

The writer personally knows a mail order business which deals in "village handicrafts"—comprising hand-made rush baskets, lavender sachets, and packets of dried herbs. The whole



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Libraco, Ltd.

A CORNER OF A WAREHOUSE

(The Pepsodent Co.)

this connection, and a trader might well adopt as a slogan some such short phrase as: "Say it with Flowers—and get them from——" It should be easy for a trader to make arrangements with a florist-gardener to deliver cut blooms, and no great trouble need be anticipated through damage or "drooping" of the blooms.

Mention of cut flowers suggests bulbs—and here again there is wide scope for an enterprising mail order trader. In the winter, when thousands of people are thinking of early flowering bulbs, good business could be done in bulb bowls, bulbs themselves, or even in complete bowls of

enterprise is successfully conducted by three girls, who do all the preparatory work, mail the orders, and do the advertising. As with all successfully conducted mail order establishments, a mail order "register" is compiled, and every purchaser's name entered with details of purchase. The publicity consists of "smalls" in the dailies, and a displayed advertisement, 3 in. by 2 in., in a high-class women's weekly journal. Here, one feels, is room for much expansion, and the list of "crafts" need not stop at those mentioned. Skilful women could sell hand-made leather-work, hand-painted table centres, and dolls.

Men's Purchases.

The articles mentioned up to now are those for women. What line is there for men—not yet exploited by the mail order trader?

Let us start with a fundamental "man's purchase"—tobacco. The smoker is catered for by a variety of manufacturers, dealers, and shop-keepers; his tobacco, his cigars, his cigarettes, his pouches, his cigar holders, his patent "lighters," his match-boxes—all these are common articles in the smoking world. How many are sold, in any quantity, through mail order channels? One firm has certainly built up a huge business in cigars through the post, but there remains ample opportunity for the mail order trader who makes a striking appeal, and offers something a little out of the ordinary. The smaller retail tobacconist, with a shop—say—in a provincial town, is apt to overlook the fact that up-to-date mail order methods can transform his business—from a purely "local" one—into a business of almost national dimensions. Whereas the small shop in High Street, Shelford, appeals in the main to only Shelford people, immediately its owner commences mail order activities, and advertises his own particular "mixture" in the press, he makes an appeal to every smoker in the country who reads the daily paper selected for the message.

The tobacconist in question may stock all the well-known proprietary brands of tobacco, but his profits on these are restricted, the prices governed by price maintenance agreements, and he comes to the conclusion that additional profits lie along the way of a brand of his own, bearing his own brand name, and carrying his own name and address—a brand which may be advertised by press advertisement, circular letter, and which will gradually become widely known—at any rate amongst a certain class of smokers. A modest space taken in a good class daily paper, followed by an intensive circularizing campaign, has achieved magnificent results for the local tobacconist—particularly in the case of a retailer who has already established some sort of reputation for a "mixture" or "flake" among the discerning smokers of his own district. Packing is not a serious item, and postage is quite small. The press advertising can be made very effective, and of course much depends in this case, as in all others, upon the correct choice of media. It is little use taking space to advertise a high-class tobacco (possibly selling at 1s. 2d. per ounce) in a "cheap" medium, read by smokers who do not pay more than 10d. for their "smoke." The good class tobacco should be advertised in the sporting journal which is read by men who ride and shoot and golf—and the brand name should have some connection with sport. A good brand name will sell goods, and its choice should be the subject of most careful study. It is fairly obvious that

"Tee-shot Mixture" will be easier to advertise, and make a more human appeal, than a packet of tobacco simply labelled "Simpson's No. 3 Blend." But the whole question of naming a product in relation to sales policy and advertising effort is a big one—vital enough to warrant a special chapter.

Motor Accessories, Etc.

In view of the tremendous extension of motoring, and the new era of road use, it is doubtful whether the mail order trader has made the best of the opportunities afforded. Many of the car's accessories and adjuncts could be sold through mail order channels, and such items as mascots, mirrors, foot-mats occur to one. It should not be difficult to arrange with a brass manufacturer to make up brass mascots from waste material, and if a grotesque design is hit upon—something different from the somewhat stereotyped figures of "Mercury" so much in vogue, a ready demand from sporting motorists would be assured. The media for advertising is ready to hand—the technical motoring papers, and the motor-cycling press could also be used. Such mascots could be profitably sold at something like 6s. 6d. each, and if a distinct design were secured, which could be registered, a very big business could be built up in this once motoring "sundry."

Boys' Business.

Has the mail order trader made a bold enough bid for "boys' business"? The young philatelist has long been catered for by the mail order stamp merchant, and boys' magazines are always full of advertisements offering "rare" stamps at low prices. But stamps are not the only articles of appeal to the modern boy. Why should not sports goods, pocket knives, scouts' requirements, magic lanterns, etc., be sold through the post? There is a distinct psychological study here, for it is an undoubted fact that the average boy *loves* to send for goods by post; there is a pleasant mystery about the transaction, a novelty which is lacking from the ordinary purchase made over the shop counter. And, too, one must bear in mind the thousands of boys who spend their school days away from home, in schools often set in the heart of the country, where no shops are available, and where purchases are habitually made through postal channels. A large "boys' press" exists which can carry the message, and the average healthy boy, with pocket money to spend, is a buyer of a host of suitable articles for mail order selling.

For the Golfer.

There is probably a good opening for the sale of golf-ball "repaints" through the post. Most of the big manufacturers have balls for sale as "repaints," and stocks of balls slightly damaged in manufacture—perhaps faulty paint, or some

minor blemish which in no way makes the ball unplayable. These balls are sold at cheap rates, and a mail order trader who secured a stock could doubtless dispose of them at handsome profits through postal channels. A slogan—"The Golf Ball Bargain Man"—worked up into press advertising, would soon identify a trader as a specialist, and big business would come from beginners in the "royal and ancient" game.

Medicines, Etc.

In the early days of "mail order," nothing was more extensively advertised than patent medicines—and in those early days, when advertising was not entirely purged of the undesirable "something-for-nothing" element, many folk were undoubtedly hoodwinked by "catchy" advertisements which sold rubbish. Nowadays, when advertising has become a purer, cleaner, more scientific force in the world's work, the charlatan is but rarely encountered. The medicines and "cures" now sold through the post are genuine, and the confidence of the public has been restored. This means that there is a chance for more sales—and in a wider field. A fair number of toilet "helps," such as moustache-fixing creams, hair oils, etc., are sold by mail order, but there are many "lines" not yet exploited. Why not shaving soap? There is a good advertising "story" to be told about a shaving soap, and there is no reason why the smaller soap manufacturer should not be glad to make a special lot and pack with a retailer's name—in just the same way that the manufacturer of hair oil makes up a mixture, bottles it, and supplies quantities to the local hairdresser with own labels.

Shaving soap suggests razors, and as the "safety" razor is now made by several English firms (often produced very cheaply from scrap material) there would seem to be opportunity here for building up a mail order business. A razor is an article which makes an almost universal appeal; its use is growing; it is cheap to produce, easy to pack, and could be effectively "run" along with other small goods. Sheffield makers might be approached to quote for quantities of a special design when once the mail order trader had fairly started his campaign.

Pictures (reproductions of famous "works"), watches, books, poultry appliances (such as "hoppers," rings, fountains), gramophone record albums, fishing tackle—these are more "lines" which occur to one as being suitable for mail order activity, and although the list is far from complete, suggestions beget others—and the keen trader will soon discover that there is no need to slavishly handle the orthodox goods: better business awaits him if he strikes out along a new path. Remember—the mail order field has no limits except those imposed by the post. The mail order trader's "shop window" must be dressed to attract the world.

CHAPTER II

SELECTING THE RIGHT BRAND NAME FOR A MAIL ORDER "LINE"

WHILST it is not necessary for every article marketed to possess a "brand" name, it is very desirable that many should be launched with a really good name that will convey the use, the origin, or the history and value of the product.

The value of a branded article, known by its own distinctive name in a wide market, is enormous. Occasionally, an article is christened with a name that becomes a household word, and in such cases, the benefit to the proprietors is permanent and of unlimited potential value. To take a classical instance—Bovril. Here we have a product with a happy name, suggestive of "beef" and food-values. The word has passed into the language, and to think about a beef extract is to think BOVRIL—the terms are synonymous, and it is obvious that a tremendous point in salesmanship has been gained.

A good brand name, for whatever the article, must be easy to pronounce, "catchy," and should preferably suggest the product advertised. It may take some time to "coin" a suitable brand name for an article, but the trouble is well spent, and will be repaid in extra and free publicity, because the public is wont to seize on a smart trade name and talk about it—quite independent of the ordinary paid-for advertising of the article.

Value of a Good Name.

It is a feature of selling, known to all who have handled advertising campaigns, that the well-named article stands a better chance than the unnamed article to which some ordinary descriptive title has been applied. To illustrate, let us take two brands of tobacco—put up by retail traders who are cultivating the mail order business. Hopkins, of Luton, advertises a tobacco and calls it "Hopkins' No. 3 Blend." The other trader, who has studied the value of a name, markets Jackson's "Leisure" or "Cosy Corner" mixture. Now these two descriptive titles *imply* a lot. They suggest the possibilities of the tobaccos—they engender desire because they conjure up pictures of happy hours with pipe and book; in a word, they help to create an atmosphere favourable to selling tobacco—absent entirely from the colourless phrase "Hopkins' No. 3 Blend." Similar instances could be quoted, and they apply to almost every type of article sold either through shop or postal channels. "Orchard Glory" as a name for a jam is infinitely more alluring than "Smith's Finest Preserves." And such a name has the power of *making* an advertising campaign; it forms the basis for a good slogan; it acts as the pivot upon which real selling "copy" can be written; it "sticks" in the public mind—

becomes (like "Golden Shred") a more or less household word, and because it is easy to remember the article which bears *it is asked for more often* than the brand without a name—or with a long and non-distinctive one.

Names Suggesting Use of Articles.

In the past, all too little attention has been given to this important question of naming the

Neither has "Hawk" or "Castle"—names such as are given to matches by many foreign firms. Why not, while thinking out a name, choose one that has some relation to the article? "Glow-Worm," "Harbour Light," "Gleam"—these are suggested examples of what could be done. Suitability should be aimed at first, and with a little thought it will be found that often some really wonderful name can be coined. As a



THE MAIL ORDER OFFICES OF MARTINS, LTD.

product. If names were given at all, they seem to have been chosen haphazard, without regard to the uses of the articles. We have said that a good name should suggest the use and character of the article. The trader should not aim at a mere name that may be registered and identify his goods from those of competitors—although, of course, this is one vital function of the name. Take the case of matches. There are hundreds of brands, each bearing some name—generally unsuitable, and not at all suggestive of "light" or "striking." "Dog" matches might just as well have been "Frog"; the word "dog" has no sort of connection with matches or their uses.

striking example of the choice of a totally unsuitable name, there is a filmy, diaphanous kind of silk called "Battleship." It would have been much better to have christened the material "Gossamer" or "Butterfly," and suggested to the buyer's mind the *nature* of the silk and its properties.

The trader may be intrigued by some of the "coined" words which are sometimes applied to goods in an effort permanently to associate the vendor's name with the article. But often these are awkward and cumbrous—not to say grotesque. There is certainly nothing brilliant about the idea of Barker, who sells—say—cutlery, calling his wares "REKRAB" brand. The reversal of the letters of

his name merely produces a meaningless word, ugly in type, and hard to pronounce. Such efforts are constantly being made, and are quite the reverse of what should be aimed at in naming the product.

The Publicity Value of Suggestion.

It is surprising how many excellent, short words there are in the language which, whilst perhaps having no direct connection with the goods to be sold, nevertheless have a potent power of suggestion which is extremely valuable from a publicity point of view. Suppose a mail order trader is handling Scotch tweed. He should not be content with giving the material "just a name"—like "Robin Brand," or "Tower Brand." In connection with articles of Scottish origin and flavour, he has some good words to select from which definitely convey the Scotch "breed" of his goods, and will inevitably suggest to buyers that they are Scotch. Examine the words "Tartan," "Heather," "Rob Roy," "Thistle"; these conjure up visions of Scotland all the world over, and will do much to convey the right and desired impression of Scottish origin. It is as easy to call a tweed "Tartan" brand as to name it "Tower"—and for advertising purposes, the Scotch name will be of infinitely greater value. We may apply the same arguments to articles of Irish manufacture. Linen which bears the name "Shamrock" is taken for Irish everywhere, and this is a point gained with little effort.

Registration of Names.

As a rule, the mail order trader need not trouble overmuch about registration of proprietary names. He may quite conceivably transfer his activities from tweed to linen; from razors to alarm clocks. At times he may be able to purchase stocks of goods manufactured from raw materials which bear a registered brand name. In such cases, he may advertise them as being made from such branded materials, but it may be wise to approach the owners of the name before doing so.

Value in Advertisements.

As advertising is the very life-blood of mail order trade, it may be noted here that a good brand name is wonderfully helpful when "setting up" advertisements. With little trouble the name can be always used in certain type, which will get known and associated with the commodity. If regular small spaces are being taken, it may be possible to supply the actual newspaper publishers with stereotypes, which can be set with your own type selection. Such stereotypes will result in advertisements with an individuality that is lacking from the advertisement containing many type faces—often of an unsuitable nature.

Packages and Labels.

Then the packages and labels must be considered. Suppose you are marketing a preparation for the hair, and send it out in bottles bearing a label. On the attractiveness or otherwise of that label, much may depend. Packages are fine means of advertising the product. If that label can "feature" a good brand name, which can be worked up into a nice design, the bottle will look better, and the label will stick in the buyer's memory—making repeat purchases easier. Where you would forget the plain white label, simply printed "Hair Oil" you remember the mauve and yellow label bearing the brand name "Glossette"—and recognize it again in press advertisements or, if the article is sold in shops, on the counter and in the window.

In selecting a suitable brand name, care will naturally be taken to ensure that no other trader uses the name chosen. A study of current advertisements in likely media will help here, and trade papers also should be consulted, as they frequently contain lists of names being used.

The Main Points.

Reiterating the importance of the subject, let us again stipulate the main points about this choice of brand name—

1. It must be easy to pronounce.
2. It should be suggestive—bringing to mind the use of the product, its origin, and its merit.
3. It should be chosen with a view to "copy writing" and display on packages, etc.

A Few Examples.

A few examples of good names for products, culled from current press advertising, are given as a guide to the trader who is seeking for a name for his "line." Note how each fills the conditions laid down above, and helps the advertising. "Escort" umbrellas; "Nabob" pickles (suggestive of the Orient); "Spinet" cigarettes—suggestive, as the "copy" says so well, of "the soothing of an old-time melody"; "Golden Pippin" cider; "Golden Meadow" butter; "Cow and Gate" milk.

Other fine examples could be quoted, but sufficient have been given to demonstrate the possibilities of the right choice of name.

CHAPTER III

THE CIRCULAR LETTER AS A BUSINESS-BRINGER

THE value of the circular letter is immense—if the letter is well written, pregnant with real sales points, perfectly duplicated, and sent

out to the right people, at the right time. These "ifs" are essentials. Letters badly written, letters not mailed at the psychological moment, and letters sent out indiscriminately to "chance" addresses culled from some old directory, are wasted. They will never help the mail order trader to build up a satisfactory mailing list of *customers*.

Value of the Sales Letter.

The great point about a sales letter is that it reaches the man who matters. Circularizing is a more exact phase of the science of selling than is ordinary press publicity. When you mail a thousand letters, if your name selection has been intelligent and thorough, you ought to *know* that you are going to "talk" to one thousand potential buyers of your goods. When you insert an advertisement in a paper with a guaranteed circulation of 5,000 copies per week, you do not know how many people you are talking to, or how many of that 5,000 are likely to be really interested in your goods. At the best you can only estimate the total number of readers likely to be turned into customers. And your advertisement is but one of many; if you are advertising a face-cream, your advertisement will be published alongside many other messages—about trouser-presses, patent medicines, tobacco, sweets, soaps, brushes, cameras, and a host of other articles. Unless your own advertisement has been so skilfully prepared that it stands out from all the rest and catches the eye of the reader, it is very largely a "chance" message. But your sales letter, if it is strong, short, and well "dressed," and sent to "live" addresses, will go right to the man you want it to reach. A stamped letter to "Mr. Horace Hanson, 27 Glenavon Terrace, Silchester," is a live message, received from the postman along with other documents of import. It will be opened by Mr. Hanson when he is receiving correspondence, when he is in the mood to read letters—and it will be *read*. There is a direct and personal touch about the sales letter which is not possessed by any other form of sales message. For these reasons, it has proved a big business-bringer, and there is wider scope for it yet, for all its vast possibilities have not been realized.

Its Preparation.

What about its preparation? Let us say at once that the writing of sales letters is a *specialized job*. It is futile to send out the old-fashioned type of letter containing such archaic phrases as "esteeming your commands," "assuring you at all times of my best attention," and "soliciting the favour of your esteemed orders." This is meaningless jargon—not sales talk at all. Before ever a draft letter is written, the salient facts about your proposition should be noted, and the points it is desired to emphasize be jotted down.

A mail order trader who is handling children's boots may have a large stock in readiness for the winter trade. He decides to circularize in a certain district, and has already compiled a comprehensive mailing list, the accuracy of which he knows. The usual—and wrong—method is to hurriedly write a long letter, extolling the virtues of the boots, repeating the sales points in a tedious manner, omitting the real facts, and ending up with some silly phrase such has been mentioned. The letters are done "cheaply," the duplicated typewriting is blurred and messy—and then the trader wonders why his campaign was not 100 per cent effective, and loses faith in the power of the personal sales letter. The trader should first ask himself these questions—

1. Am I circularizing the right *class* of buyer?
2. Am I tolerably certain that my letters are going to houses where there are children?
3. Is my present stock composed of "bargain" lines, or is it a high-grade proposition, to be sold on a quality appeal?
4. What is the chief selling point about the boots? Comfort? Strength? Fashion? Low cost?
5. Have I calculated *every* cost in connection with the scheme, and reckoned out my probable return? Does that return show a reasonable profit?

The First Step.

If satisfactory answers can be given to these main questions, the scheme can be launched, and the first step is the actual preparation of the letter. The conscientious trader, determined to put every ounce of real selling into his letter, will perhaps write half-a-dozen drafts before he turns out one that *satisfies*. He need not worry about the trouble involved. If his scheme was press advertising, in the hands of a reputable agency, a dozen pieces of "copy" might be written by expert copy-writers before one passed muster and was issued. Detail in advertising is all-important. A badly-turned phrase, a vague description, a misleading statement—these can mar a campaign, and even turn success into failure. The popular notion that advertising consists in making a "shout" about one's goods is responsible for much loose work and poor result. Think of advertising as being—not merely the sending out of circular letters and the insertion of press advertisements—but *everything* you do to sell your goods, and you will get a truer vision of its power and dangers. The way you address your envelopes; the design of your letter heading; the promptitude of your replies to queries; your packing of goods—these are all integral elements in your advertising, which embraces every means by which you bring yourself, your house, and your goods, to the notice of the buying public.

The Class Appealed To.

We have mentioned the winter trade in boots. Therefore, our trader must commence his circular campaign before the winter sets in, and before purchases will have been made through shop channels. The appeal will be mainly to *women*, for women chiefly buy the youngsters' boots and shoes. The district selected for the campaign, and

A Specimen Letter.

The following is a specimen sales letter for mailing when the various sales factors are as stated above. It is a specimen only, and would not, of course, meet the needs of every trader or every district. Taken as a model on which to build, it should assist those traders who find difficulty in writing effective sales letters, and who



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A SAMPLING AND MAILING DEPARTMENT
(The Pepsodent Co.)

the type of houses in it, will afford the clue to the type and class of woman to whom the message is to go. Is she an artisan's wife, with an eye on economy and full value-for-money? Or is she the wife of the professional man, with a very fair and regular income?

It is perhaps decided that the average woman appealed to will be of the middle class, forced to study economy, yet anxious to get good footwear, of fashionable shape and design. The boots on offer are exceptionally good for the money asked, really "bargains," and the main sales point is going to be durability and suitability for hard wear by healthy school-boys.

do not wish to take advantage of the many excellent expert writers who cater for this particular phase of advertising to-day.

THE BOOT BARGAIN HOUSE,
YORK BUILDINGS,
MANNINGFORD.

Dear Madam,

You will doubtless soon be thinking of that big winter problem—the CHILDREN'S BOOTS. Days are coming when the kiddies will need good stout footwear, hard-wearing and weather-proof, if they are to keep healthy and strong.

It is my pride that I help to keep thousands of school-boys fit throughout the winter by supplying real weather-proof footwear—at prices which parents can afford to pay.

I have a fine stock just now of strong, correctly-designed

boys' boots, made in very high-grade leather. As they were secured at special prices, I am passing the advantage on to my customers. The attached leaflet illustrates the boot, gives a full specification of its sturdy build, and embodies a useful and simple order form.

If you send in your order now, accompanied by remittance of a pair of these splendid boots will be sent to you per return.

May I emphasize my "money-back-if-not-satisfied" clause? It forms the basis of every article I sell; I am in business to give complete satisfaction to every buyer of my goods; if for any reason the article sold does not please, the purchase price is refunded—without argument or quibble.

But my boots and shoes invariably *do* please—I handle nothing but perfect quality.

To-day is 4th October; I trust that, in view of the nearness of winter—with its snow, rain, and mud and consequent heavy wear of the youngsters' boots—you will post me your order quickly.

Yours faithfully,

JOHN BANNISTER.

That is a specimen letter, modelled on the style of an actual circular which pulled very big business for a mail order firm selling winter *clothing* for children. For clothing, we have substituted boots, and it is obvious that there is a close analogy between the two things.

The Leaflet.

It will be observed that mention is made in the letter of a *leaflet*, and it will be found that in all cases where articles like boots are sold, it is desirable, and even essential, to give some illustration. A leaflet, printed on imitation art paper, in attractive tints, from half-tone blocks, will not work out very costly, and it can be made to serve the double purpose of illustrating the article, and forming the order for it—being perforated so that the purchaser can tear off the order portion. If the leaflet is so designed that the order portion is of handy and convenient size for filing, it can well become an actual record in a card index drawer, and will give at a glance the name and address of the customer, the goods ordered, date, etc. Thus it may form a very useful aid in building up a "trade register" or index, which will be invaluable when sending out the next circular letter.

Letter Should Be Short.

When preparing circular letters, it is always a temptation to try and tell the *whole story*—whatever the article may be which is handled. Now this endeavour to get a mass of facts into one letter is nearly always a failure. There is an enormous amount of information to be conveyed about every article a trader can sell. It would be possible for a letter about blankets to run to ten pages of matter—but the letter would not be read by many who received it! The hard thing to do, when compiling circular letters, is to keep them *short*. They must necessarily contain some information, but in the main they should be suggestive, desire-creating, leading the reader on to some other and more decisive action than the actual reading

of the letter. If a letter does not impel the reader to some action in the direction of buying the goods, it has failed in its mission. And if the first letter is to do this, then the second of the series must carry the desire a step further; the second letter, a "follow-up," must consolidate the advantage gained by the first. The third must capture the next line and carry the reader right up to the point of sending the definite order. If sales letters, sent out in a series, do not grow in intensity and selling power; if they do not break down every obstacle in the way of a sale, and *compel* the recipient to do some definite action, their primary mission is unfulfilled, and it must be assumed that the letters suffer from some imperfections of style or preparation.

One Article—One Letter.

As a general rule, it is wise to deal with one article in one letter. A circular that commences to tell one about a cheap line in umbrellas, and then leads on to a bargain in alarm clocks, and ends up with a short reference to some wonderful razors, has dissipated its potential strength and lost much of its selling power. Arguments should be brief, and strictly to the point. At times it may be permissible—and even desirable—to use a little humour in a letter. More and more humour is being harnessed to selling, but its use must be the subject of very careful thought, for humour wrongly applied, or used at an inauspicious time, is likely to kill demand instead of stimulate it.

Duplicating.

When the letter has been drafted to the dealer's complete satisfaction, the time has arrived for getting it "duplicated." It may be that the dealer himself has a satisfactory type of duplicator, of the "gelatine bed" pattern—but more frequently it will be the best plan to employ some specialist house which makes facsimile letters its main business, and has adequate facilities for turning them out promptly and well. The actual execution of the letters is of the utmost importance, and poorly produced letters, no matter how strikingly they may be worded, will create a bad impression on the recipient. Many of the facsimile letter houses have excellent "multigraphing" machines, and are able to execute circular letter work at high speed, and with perfect results. It goes without saying that your letter-paper must be of good quality, nicely designed, and suitable to "take" facsimile typewriting. The aim is to make the letter look as much like a distinct personal letter, typed "individually," as possible. Once you convey that intimate "personal" touch, part of the battle has been won. Your message, far from being a broadcasted "general" message, becomes a personal sales talk with "Mr. Henry Burton" or "Mr. George Garnett"—or whoever the recipient may be. Subconsciously the recipient

is flattered at being singled out for a message about your gas mantles, or bulbs, or hosiery, or garden tools.

The Cost.

The cost of duplicating 1,000, 5,000, or even 10,000 letters is not high, although rates vary considerably with the different firms. Electrically-driven machines, such as are used by the bigger firms handling mail order circular letters, turn out the letters at a very high speed, and an important factor in any sales campaign is this quick delivery; if a mail order trader desires to catch a certain market—say a short “seasonal” one—it is essential that he is able to employ some organization that can “deliver the goods” without a moment’s delay.

On to the cost of the letters (including the actual paper and duplicating charges) has to be added, of course, the cost of envelopes. A good class manilla envelope, eminently suitable for our purpose, can now be purchased at about 3s. 6d. per 1,000. Postages must also be reckoned, and it is pleasant to note the reduced postal rates—and to remember that there is a distinct possibility of further reductions. The envelope addressing is best done by the same organization which handles the letters, but if it is desired to do this work separately, it may be possible to adopt one of two courses—

1. The mail order trader may already employ a staff, and if the campaign is not of the “rush” variety, to be got out all in a hurry to meet a special demand, the envelopes can possibly be addressed in ordinary working time by the normal staff.

2. Special “envelope addressers” can be obtained (girls) who do this work speedily and accurately. The rates charged vary here also, but one may take 8s. per 1,000 as a fair basis to work upon.

It should be remembered that many of the specialist houses now dealing with circular letters handle the whole work, from beginning to end, including envelope supply and addressing, and they possess up-to-date machines for the addressing work. It is perhaps desirable, unless the trader has a fairly large and experienced staff, to entrust the work to the specialist firm.

The “Follow-up” Letter.

The question of the “follow-up” letter, to be sent out after the original circular, is a vexed one, and one that must be solved by each individual trader. In certain trades of which the writer has had experience, a fortnight has elapsed between the despatch of letter No. 1 and letter No. 2. In other cases, one week may be the right period—and in others, one month. It is a mistake, however, to allow the first letter to be forgotten. The

whole art of the circular letter is to keep your goods constantly before possible buyers, making a “hammer-blow” appeal which finally clinches the order.

Keying Advertisements.

In press advertising, it is customary for the advertiser of mail order goods to “key” his advertisements. One sees the phrase “When replying, refer to Department G/9,”—or more often, the address for replies is given as “Department D/M”—the letters standing for the paper in which the message is inserted, and affording a clue to the source of the enquiry or order. This is a most valuable idea, as it shows the advertiser which media are bringing in results and which are wasteful. There is no reason why the same idea should not be worked in connection with circular letters. A footnote to the effect that replies should refer to “Desk 8,” added to letter No. 1, and a note “Desk 9” to letter No. 2, and so on, would show *when* the buyer responded to your appeal, and which circular actually brought in the order.

Value of Card Index.

Card index record cabinets can now be obtained at such moderate terms, that it is recommended that every mail order trader installs one and makes it his “mailing list” and customers’ register. It may be possible, in a small business, to combine the functions of ledger and mailing-list, by means of a small installation of “card ledger” system, but the matter is one that must be left largely to the ingenuity of the trader, for all conditions vary, and a “system” suitable for one business would not be of real service in another of a different class and size.

The great point is to keep some form of accurate register of names, and by some system, record results from circulars sent out. The very useful “signals” obtainable from the various office equipment and “system” houses may well be employed for indicating “live” customers, those who have not responded to repeated letters, and those from whom orders are awaited. Signals of different colours can be obtained, and should be clipped on to the top of the index cards in varying positions, so that the whole arrangement can be seen at a glance at the cabinet drawer.

If an office boy is employed to post the letters, and stamp them, make sure that the work is done efficiently. A letter that slips through unstamped, and on which the recipient has to pay surcharge, is a serious factor in damaging your reputation in that particular quarter—and when you are building up a mail order business, every single customer counts: none can be neglected.

Further Examples.

Two more examples are given of circular letters

suitable for the mail order trader; and these, as the earlier one, should be regarded as "basis models" to suggest the method rather than as specimens to be slavishly followed.

Suggested letter for "General" Mail Order Trader who has secured a special "Lot" of watches.

CORONATION BUILDINGS,
BELVOIR STREET,
WESTBRIDGE.

3rd May, 1923.

Dear Sir,

Time is Money—a hackneyed phrase, but a sentiment to which you subconsciously subscribe if you wear a watch on your wrist, or carry one in your pocket. Because time is money, that watch should be a perfect time-keeper—reliable every hour of every day of the year. Is your watch that?

I know a good deal about watches, and have sold over 3,000 this year. The finest watch at its price that I have ever seen is the "Royal Star," which I am offering you at the low price of 16s. 6d. post paid. Read the attached specification, and you will say you never knew better value.

The illustration also attached gives you some slight idea of the beauty of the "Royal Star"—but no picture could convey all its charm. It is built in England, by experts in the fine craft of watch-making. It is guaranteed for two years, and if any "Royal Star" fails to give complete satisfaction, the buyer can have his money back per return if he will write me.

The case of the "Royal Star" is rolled gold. The movement is Swiss-made in a world renowned factory. Every watch carries six fine jewels, and the dial is extraordinarily clear and handsome.

I have only a very few of these wonderful watches left, and I cannot buy again at a price which will enable me to offer them at 16s. 6d. each. Send me your order now—and miss no more trains and appointments through inaccurate time-keeping of your old watch.

Order form enclosed shows models available, and I ask you to state whether Case 1B or 2D is required.

Time is Money. Act now—before my stock is cleared!

Yours faithfully,

J. MARRIOTT,
THE MAIL ORDER HOUSE.

Suggested letter for an "Established Retailer" anxious to develop a Mail Order business in sports clothing.

Dear Sir,

Here is a sporting offer—from one sportsman to another.

For many years I have specialized in good sports clothing—tennis shirts and flannels, cricket "togs," boating blazers, and "straws." There is nothing in the sports clothing line that you cannot get at my establishment, and get it better than elsewhere.

Just now I am selling some very special tennis flannels through the post. They are of superb cut and quality, and the manufacturers guarantee them as unshrinkable—let the laundry do its worst to them! They are the best flannels in England to-day, whether in a shop or as a postal bargain.

If you do not play tennis, you will want a pair for that week-end on the river or by the sea.

Send me your remittance for now, and do not risk the reply "sold out."

I know these flannels are really good, and if you by any chance do not agree after purchasing, just write me the one word "dissatisfied" and your money in full will be returned without argument, but I do not get "dissatisfied" as a verdict very often.

The enclosed little booklet (nicely printed, isn't it?) describes some of my other clothing bargains.

I shall look forward to your order.

Yours faithfully,

ELVIN MAYNARD.

CHAPTER IV

"GOOD REPUTATION" THE FOUNDATION OF SUCCESSFUL MAIL ORDER TRADING

BECAUSE it is sometimes possible for the man with very little capital, and no business premises other than a single room in a private house, to commence mail order business, the idea has got abroad that such business is "easy"—that all that is needed is for the trader to sit at home, in a comfortable chair, and open the "shoals" of letters in order to extract the postal orders! Such a conception of mail order trading is, of course, entirely wrong, and can only lead to disappointment. The "something-for-nothing" idea which once had its place in the scheme of mail order advertising, has been practically eliminated. The old type of mail order merchant, who dealt in impossible "bargains," and advertised razors at 5s. whilst boldly stating that they cost 7s. 6d., is gone. Gradually, better methods have come to characterize mail order business, and the beginner must clearly understand that his goods must be honest value for money, and that his advertising must be shorn of all "catch-penny" phrases and flavours. The public is not so gullible to-day that it will "snap at any bait." And the mail order business man who has any sense of values, and any kind of vision, will quickly realize that there is little in inserting one advertisement in sixty or seventy papers, and "selling out" a special line if all the buyers are in future going to fight shy of the trader's name because of some "catch."

Before ever you insert an advertisement, satisfy yourself that everything you say about the goods can be rightly claimed. It must always be remembered that mail order trading is carefully watched by the authorities, and as soon as you begin to receive money by post, a little investigation by the police will be made to see that you are offering some *bona fide* goods that are value for the price charged. Study the advertisement columns of certain papers, and note the number of queer advertisements that appear, offering all kinds of remedies and novelties, and you will understand why the police occasionally take a hand. But no genuine trader by postal methods need fear any investigation—it is only the charlatan and the "quack" who tremble when daylight is let into their transactions.

Repeat Orders.

The shop-keeper would be foolish who relied upon one satisfactory bargain "sale" to make his annual profits and make his fortune secure. He knows that it is the repeat orders, which keep coming along in and out of season, that build up the business on a sound basis—and he extends the same courteous treatment to the small purchaser

as to the big. And the mail order trader must do the same. He will naturally be glad to receive an order (the first) from Mrs. Holroyd, of Hull, for some blankets, but he will be better pleased when the following autumn he notes that Mrs. Holroyd writes him about counterpanes or rugs. Repeat orders come only from *satisfied customers*, and are proof that the trader is prospering and building up goodwill.

and has never met "Mrs. Westby, of Bridlington," has no such speedy remedy at hand. If he once supplies the wrong goods, or if his quality is not just what the advertisement states or implies, then the customer is lost—and, worse than lost, becomes an agent of enormous power for evil in her own district. Women buyers meet together at tea—in the shops—at meetings—and the merits of shops and traders are discussed. If "Brown's Mail



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AN EQUIPMENT OF MECHANICAL APPLIANCES

(The Pepsodent Co.)

There is this phase of mail order trading to keep ever in mind: the ordinary shop-keeper, with his establishment in the main street of a provincial town, may sometimes make an error and supply the wrong goods to a customer. The chances are, in such cases, that the error can be easily rectified by sending an explanatory letter round to the customer's house, or by waiting till the next call made, and personally explaining matters. The trouble may be one connected with *quality*, but whatever it is, it can usually be put right by a tactful conversation, a smile, and special attention to the next order. But the mail order trader, who only knows his customers as "ledger folios,"

Order Bargain House" has upset Mrs. Westby, be sure that the whole transaction will be thoroughly discussed, and your name will be quoted as a warning to other ladies disposed to send you money for the splendid lines you advertise in the *Daily Magnet*.

"Money-back Guarantees."

Many mail order traders employ the phrase "Money back if not entirely satisfied." It is a good phrase, and looks well in advertisements. But no trader should use it who is not prepared to *stand by it in every case*, and in fact make it the slogan around which his sales policy is built.

Just think what happens in practice. You are handling a really sound line, and feel, when you insert that phrase, that there will be very few occasions when the quality of your goods is disputed. But in the course of time, there is certain to arrive an occasion when some customer who is particularly hard to please, seizes on that slogan, writes to you, and demands her money back. You may investigate the complaint, and be convinced that the customer is unreasonable—there may be no legitimate grounds for complaint at all—but if you are wise, you will write a nice letter to the customer and return the money—with your compliments. The old maxim “The customer is always right” applies with singular force to mail order business, and might well be taken as a creed. When you return a customer's purchase money you establish, for all time, a bit of reputation as a reliable trader who *keeps his word*. Just as a customer with a grievance will talk about some unsatisfactory transaction, so will the customer who has received a prompt and complete settlement of his or her complaint, tell of the matter and give you a free advertisement as an honest trader.

Supplying Houses.

In order to live up to your reputation as a trader to be trusted, it is essential that you obtain your supplies of goods from first-rate houses. If you are marketing a novelty mascot, and get the article made up for you by a firm of metal manufacturers, it is vitally important that before ever you place your orders, you obtain a definite assurance that the quality of the sample on which orders were placed, shall be always maintained—and further, that deliveries will be prompt. The position may conceivably arise when the demand will mean a “rush” order on the part of the makers; in such circumstances, it is necessary that the manufacturers should have the facilities for dealing with the matter, and be willing to oblige you. No mail order trader can afford to be unable to cope with the orders which follow an advertisement, or faith in the house is shaken at once.

Accurate Description Essential.

There are many ways in which mail order advertisements can mislead the buying public. Suppose you are offering a special cedar cigarette box, covered with antimony. If the box measures 7 in. by 4½ in., do not advertise it as 7 in. by 5 in. That odd half-inch may not be very important, but it will cause some buyer to quibble about his “bargain” and destroy his faith in you for the future. When next your advertisement catches his eye, he will recollect the previous transaction, say “That fellow misrepresents his wares”—and your second message will not secure his order.

If you have placed a face-cream on the market, and intend stating its exact ingredients, do so

accurately. To miss out one element may mean your downfall, for out of sheer curiosity, some astute chemist may decide to have your article analysed, and when he finds out the discrepancy between the goods and their description, he will not keep silent about the matter. In such ways are reputations lost.

Prices of Goods.

There is, of course, much room for sharp practice in connection with the pricing of mail order goods. The postal trader, like every other business man, is naturally out for quick and reasonable profits, but if you are handling an article which can be sold to show a fair profit if you price it at 7s. 6d., it is nothing but sharp practice to quote 16s. for it. Such methods are those of the “quack” in the market-place, who may be in one town to-day, and never visit it again for twelve months. Your mail order establishment in Leeds or Birmingham is a permanent affair—working from a stated address which anyone can visit at any time. You must not envisage yourself as a “bird of passage” but as a trader with a permanent, enduring type of business, even though you never see your customers and deal with them only through the medium of the post.

Price Reductions.

Another aspect of honest dealing is connected with the price reduction. Suppose you insert a press advertisement offering patent oil-stoves at 11s. 9d. each—and there is but a poor response to your appeal. You perhaps contemplate a price reduction, and price them at 9s. Business is still slack, and you bring down the price to 7s. 6d. The buyer who ignores your follow-up circular quoting this last figure does so because he has watched your campaign, and is convinced that if only he waits long enough, he will secure a stove at 5s. This is poor business, and will not enhance your reputation. The “auction” type of sale is not what you are out to cultivate.

It is well, before pricing your goods, to decide upon a definite sales policy; work out all your buying charges, your selling expenses, your “overheads” and then fix a fair price which shows you the necessary profit. Having fixed the figure, you should adhere to it.

Guarantees.

If you make use of the word “guarantee,” be prepared to interpret it in its full and legal sense. It is a much-abused word, and can lead to a deal of trouble. The manufacturer of the articles you handle should be consulted as to how *he* stands if you “guarantee” the goods. Ascertain just what parts are guaranteed, and enquire as to whether the manufacturer from whom you actually purchase the articles is responsible for the whole of the parts and processes. The point can be well

illustrated by quoting the case of the bicycle; a cycle firm advertise certain models, and issue a "guarantee" which is operative for—say—two years. But such guarantee may not cover the whole machine, for there are parts of it which the cycle maker merely buys from other firms—the tyres, the saddle, the three-speed gear. The manufacturers of these may issue their own guarantees, or may not. The whole matter should be fully discussed with the makers of your goods

manufacturer who appeals to the general public and, having convinced them of the merits of his goods, tells them that the goods are obtainable through the shops and stores. The mail order merchant, if he is *exclusively* a mail order trader, must not only persuade potential buyers that his goods are better than any others, but he must also prevail upon the public to send him money for them—through the post, without having seen the goods.



Photo

FRENCH CONFECTIONERY PACKING DEPARTMENT
(Messrs. R. S. Murray & Co., Ltd.)

Keateys, Ltd.

before you include a guarantee clause in your press advertisements or in your circular letters.

The building of a good reputation may take some time—but once acquired, it will be a priceless asset.

CHAPTER V

HOW TO WRITE "MAIL ORDER" ADVERTISEMENTS

It need scarcely be emphasized that the mail order trader—when using the Press for his message—must approach the subject of "copy writing" from a different angle to the ordinary trader who displays his wares in a shop, or again, to the

Psychology in Advertising.

But the mail order beginner need not think that this "unseen" factor is anything terrible, or that it makes goods harder to sell. As a matter of fact, there is a strong psychological element at work in all mail order business. Somehow or another, the average man likes to send money to an address in another town for some article. It is an instinct that has survived since boyhood's days. Who does not remember the delight of sending a postal order for a pocket knife, air-gun or a fountain pen? There was a thrill about such a transaction that is altogether absent from the purchase made "over the counter," and grown men seem to appreciate the fact as much as boys. With women, the instinct is even stronger, and

although on the face of things it may seem passing strange that a woman will go to the extra trouble of obtaining a postal order, and sending up for postal-advertised goods, when she can easily obtain similar goods in the main streets of her own town, it is a recognized feature of mail order trading and must be welcomed as such.

An Instance.

Let us take an instance. I open a copy of the *Morning Report* and see some shirts advertised by "Simpson—the Shirt King." The price is reasonable, but not less than that asked in the hosier's shop at which I usually deal. But as I read the advertisement, and study the "money back" basis of the offer, and feel the "appeal" of the advertisement, I have a pleasant mental picture of receiving a parcel through the post—of opening it with a keen joy—of proving to any doubting friends that "those shirts sold by post" are good shirts—shirts that save your money. After a little more thinking, and as I pass the post office, I take the plunge, buy the requisite postal order, and fill in the order form from the paper. Follows a day or two of pleasing expectancy, and when the shirts arrive, there is a good feeling about the whole "deal" which is absent from the shop transaction.

There is not a doubt about it—the facts are as indicated, and because of it, mail order methods of trading are definitely on the increase. The fact that great dailies now regularly devote special columns and sections of the paper to mail order announcements, and thereby give official recognition to the growing movement, proves that postal trading has come to stay, and that it is a big power. To judge of its probable effect on shop trade is not within the scope of this chapter—which is to deal with mail order press advertising, and show the prospective postal trader how to prepare "copy" for the papers.

Old and New Methods.

The writing of any advertisement is a difficult matter. The art may be described as one of "intelligent condensation"—for it is a fact that most advertisement writers make the mistake of *saying too much*. The day when an advertisement was recognized as a "boost" of an article, has gone. The flowery, adjectival announcement, with no "reason why," has given place to the reasoned, restrained, brief announcement which is easily read and understood, and which *creates desire*.

There are still mail order concerns which adhere to the old slogans like "Astounding Bargains" and "Sensational Offer"—but generally speaking, such phrases have given place to better publicity. There is really no reason why the mail order trader should always have an "astounding bargain." It must be remembered that all too often in the past, that "astounding bargain" has been

astounding in a very different way to that which the advertiser intended! The buying public has grown a little tired of such sensationalism, and prefers the reasonable statement which carries more conviction.

As a general rule, the mail order advertiser will take small spaces in the press. The "full-page" is for the big store which runs a mail order section along with its shop trade, and is able to allocate a large appropriation for its advertising. We are dealing more with the smaller trader who has but limited sums to expend on publicity.

Which Media?

It is assumed that it has been decided, after very thorough consideration, to use the press to advertise an article—that is to say, it has been proved that in this instance, press publicity will be more valuable than circularization or a booklet or folder. There now arises the very big and vital question of "Which media?" A good deal of waste occurs owing to the selection of wrong media. If we are advertising safety razors, it will be almost futile to book space in women's fashion papers. It is not inferred that many mail order traders would do so, but the exaggerated instance will serve to illustrate the point. The media must be *suitable* for our message. The mail order trader handling poultry appliances will naturally first turn to the poultry technical press, and probably his advertisements will pay best if inserted in the cream of the poultry papers. In such a case, he knows with certainty that the papers he selects are read by those interested in poultry. But unless he covers the whole of the poultry papers, he is missing many potential buyers, and therefore he should consider *general press* advertising in addition. While an advertisement about a patent poultry drinking fountain, inserted in a good class "county" paper will perhaps be seen by many readers who do not keep poultry at all, it is certain that it will also be seen by a great number who *do*—and who do not "take in" a poultry paper in addition to the newspaper. And it has to be remembered that the circulation of the specialist poultry paper will be small compared with that of the general newspaper. For our trader in poultry appliances, there is the specialist paper with a weekly circulation of perhaps 8,000 copies, and the "county" newspaper with a circulation of 80,000.

This question of suitability of media is a most important one, and there is much to be said about it. Some journals have editorial "features" which materially help the advertiser. In the case of our poultry appliance dealer, think how helpful it is if, on the page where his advertisement appears, there is a "poultry column" dealing with many aspects of the culture—and occasionally having an article on "Appliances for the Poultry Yard." Or let us suppose a trader is advertising

a patent and improved baby feeding-bottle. If his advertisement appears on a page devoted to babyhood, it is pretty certain to be read by *mothers*—to whom our trader wishes to appeal, and on whom his business largely depends. Even in this age of specialized advertising, one sees some striking examples of wasted effort through wrong choice of media. The writer has seen agricultural machinery advertised in a paper which hardly ever reaches a farmer!

Preparing the "Copy."

If the advertising scheme has reached a point where the general policy has been decided upon, and the most suitable papers selected, it is perhaps time to consider the actual preparation of the "copy." Now even the small mail order trader should carefully consider the question of consulting an established advertising agency, with facilities for "copy-writing" and all phases of publicity. The ideal agency is one that has on its staff expert copy-writers, skilled "lay-out" men, trained "market investigators," and a controlling "head" who has a wide business knowledge, and is in the advertising business, not merely to secure "new accounts," but to *serve his clients faithfully*—often even advising them *not* to advertise at a particular juncture. But such an agency may mean more expense than the trader is justified in incurring. Well, it is not impossible to write one's own "copy" and arrange the placing of advertisements without any outside aid. But it must be remembered that poor copy is always a waste of money. Orders may be received as a result of almost any kind of advertisement, for *any* publicity is better than none at all; but consistently good results, and repeat orders, will only come from skilful advertising, and from appeals which are based on sound technical knowledge, allied to a real understanding of human nature.

A mail order trader is advertising a special face-cream for ladies, and is contemplating the preparation of a piece of "copy" to fill a space in a provincial newspaper, 3 in. deep across one column—approximately 2½ in. wide. Now, although the total space is not large, if the advertisement is well laid out, and attractively written, it can be made a real business-bringer. In spite of the small space, it will need as much attention and skill as the full-page appeal inserted by a world-renowned house. Every word must count, and every statement ring true. Take a piece of paper, rule out the space, and then take a current newspaper and find a similar sized advertisement, and try and visualize what your own appeal is going to look like. Probably a script heading will be best, and a compelling headline must be found. "Buy the best Face Cream" is too commonplace, and is not likely to appeal to girls and women—your customers for the article. Let us try and ring the article round with "romance"—creating an

"atmosphere" about the goods, and suggesting their *use*. In the search for a suitable set of *words*, there is a volume which will be found of the greatest possible value—Roget's *Thesaurus of English Words and Phrases*. This book is really indispensable to the copy-writer and finds a place on the desk of nearly every advertising man. Turning up the appropriate section, we shall find a whole set of words which will help: words such as "charm," "bloom," "zephyr," and "complexion." Now our face-cream is intimately concerned with complexions—so let us note that word. And it may be said to impart "bloom" to the cheek—and an indefinable "charm." A basis is soon arrived at on which a headline can be built. "Complexions of Charm" would be a good phrase, and would attract the attention of most women. After many attempts, the following piece of "copy" is evolved and typed out as neatly as possible, spaced to the "setting" which is desired, and made to fill, as nearly as possible, the space.

COMPLEXIONS OF CHARM

Fresh girlish complexions are the lot of those who use non-greasy

"PANDORA"

FACE CREAM

Just a little of this fragrant, harmless cream, rubbed into the skin night and morning—and beauty can be yours. It is ideal after exposure to wind and sun, and is used by outdoor girls everywhere.

Sold in dainty porcelain jars

Price 2s. 9d. post free

from

BERYL'S BEAUTY BUREAU,

LANSDOWN TERRACE, HIGH STREET,
EXVILLE

It will be found that a restrained, brief advertisement of this description will secure more orders than any blatant appeal which is headed "Astounding Bargain!" It conforms to the new outlook in advertising—the reasoned appeal against the glaring exaggeration.

The Lay-out.

Much will depend, of course, on the setting and the kind of type used, and in this connection it is perhaps desirable to get the advertisement "laid out" by a skilled lay-out man, and a stereo made by a firm of block-makers. This stereo can then be sent to the newspaper and instead of the advertiser being in the hands of the paper, as far as the important matter of type selection is concerned, he can be sure of the style of his advertisement before ever it is inserted. The lay-out man will advise as to whether the heading should be "script" or hand-lettered, and will also indicate the styles of type to be used in other parts of the advertisement.

The Type to Use.

But with regard to type faces and their selection, the mail order advertiser will do well to make himself thoroughly acquainted with the more usual types employed, and there are several good hand-books on advertising to be obtained which give prominence to this matter. It is a very big help, when preparing an advertisement, to know just

letter would be selected for the headline "Built like a Battleship"—used to advertise a typewriter or a bicycle.

Illustrations.

As a general rule it can be taken that illustrations strengthen any advertisement, but if the space at one's disposal is very small, and the medium is a daily paper printed on fairly low-grade paper, they



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ADVERTISING DEPARTMENT
(The Pepsodent Co.)

what "Cheltenham 8-point" type is like, and how it fills a "line." Much attention has recently been given to suitable types for certain advertising. It is a fact that certain styles suit some commodities, but not others. There is a China tea being advertised, and the very type used creates the right "China" atmosphere right away. The characters are hand-lettered, and are of Chinese design—linking up in a very powerful way with the nature of the article, and keeping the origin of the tea constantly in mind. Graceful, slender types of letters are used when advertising high-class jewelry, fine silks, and choice glass-ware; the type is in keeping with the article, just as a bolder, stronger

should not be attempted. A good illustration helps enormously, but a poor one—blurred and difficult to understand—is a handicap rather than a help.

The Aim of the Advertisement.

The mail order trader must decide, when he prepares his press advertisement, just what he wants it to accomplish. One type of advertisement will create the *first desire*—the first faint interest in a proposition—to be followed up and warmed into insistent desire that ends in possession. Another type will make a reader take the trouble and send for a catalogue. In the latter

case, it is up to the trader to make the sending of the catalogue and its accompanying sales letter do what the advertisement *commenced* to do—sell the goods.

Whatever the trader wishes his press advertisement to do, must be kept in mind during the whole of the campaign. To-day thousands of press advertisements are inserted which make no pretence to actually *sell goods*. Their mission is to create a desire that compels a reader to do certain things: either undertake a test of an article, enquire for full details in a shop, or adopt a new habit of life. The business of selling is achieved *indirectly*—and the press advertisement is not the only sales weapon in the armoury.

Critical Examination of Draft.

But the average mail order merchant inserts his press advertisement with the main object of making it an "order getter"—and it is on this basis that it should be judged. Now how can the advertisement be tested for pulling power? Who is to say, when it is in "draft" form, whether it is going to be a business-bringer? Well, there are certain things the trader can ask himself—or ask a friend with some knowledge of advertisements and their appeal. Get the "draft" in front of you, and ask yourself the following questions—

1. Is the general style of the advertisement such that it will be picked out by the eye that is "skimming" over a newspaper page?
2. Does the headline make me want to read on?
3. Does it "ring true" and sound reasonable, or does it make a fantastic and impossible claim?
4. Is the name of the article a good one, or is it a silly "tongue-twister" that annoys?
5. If there is an advertisement, is it one that has some real relationship to the goods?
6. Does the advertisement "suit" the medium in which it will appear? (An advertisement intended for a "high-brow" monthly would not commence: "We have no bananas!"—and an advertisement to sell cheap brooches through the medium of a mill-girls' paper would fail if it quoted Ibsen or Shaw.)
7. Is the price of the article clearly given? Does the reader know just what he will get for the 5s. asked?
8. Is the address clear and in its logical place?
9. Is the type used going to be in strict keeping with the nature of the article? (Daintiness should be aimed at if you are advertising lace; strength if you are advertising hammers.)

Reiteration.

If the advertisement satisfies all these demands it has some merit, and can be tried out in your selected papers. And when you have decided on a policy of press advertising, give it a fair and

reasonable trial. The art of successful advertising depends very much on constant reiteration of a claim. The first time that Beecham's Pills were advertised as being "worth a guinea a box" did not make everybody think they *were* of such high value—but repeated statements *did*. You are familiar with "Pears' Soap" and "Player's Navy Cut" because the names have been before your eyes on hoardings, in magazines, in newspapers, and on railway stations for years—the oft-repeated, hammer-like blows of the advertiser have accomplished their object—and the goods are known by everyone, and *asked for* by millions of buyers. One solitary advertisement will not make your fortune, but providing you are advertising on the right lines, publicity will prove the very shortest route to success—that is, always providing you are selling a *good* article. Even the almost limitless power of advertising cannot sell a bad article for long!

Topical Advertisements.

If you contract with a newspaper for a series of advertisements, to appear in certain specified issues, you will, if your "copy" is prepared in advance, be able to obtain "pulls" of the advertisements before the paper goes to press, and this is useful because you may wish to slightly revise "copy" in view of topical happenings. The "topical" advertisement has much to commend it, because it links up with a line of public thought, and gets prior consideration from a reader. An advertisement headed "Ten to One"—appearing in the press a day or two previous to the Derby race, will attract attention because it is allied to the subconscious thought-train of the average reader who, even though he be not a bit interested in horse racing, cannot help seeing allusions to the turf in the editorial columns of his paper.

"Keying"

All press advertisements can, and should be, "keyed" so that the advertiser readily can tell which papers pay. The usual method is to insert some index letters in the address having relation to the paper, so that replies received show at a glance which paper has produced them. Everyone has noticed a mail order advertiser, inserting his message, say, in the *Daily Mail*, give his address as—

Department "D.M."

Another method is to alter the initials of the name to correspond with the letters which stand for the paper—"D.M. Jones" for *Daily Mail* advertisements, and "D.G. Jones" for *Daily Graphic* advertisements. It is a simple matter to formulate a "key" and, should the trader not adopt some such method, he will always be somewhat in the dark as to what papers bring him business.

Advertisement Should be Clear.

Avoid the "puzzling" type of "copy." Newspaper readers are too busy to bother about an advertisement which demands puzzling out. If an interested reader cannot quite understand whether he has to send 6s. 6d. with his first reply, whether postage is included in the price, whether an accessory is supplied with the main article, or whether it is an "extra," he will pass the advertisement by—averse to being involved in any correspondence about the matter. The mail order trader's message must be perfectly clear so that the reader may know just what he has to pay, where he has to remit, and what he will receive in return for his cash.

If you handle several lines of goods, it is better to devote small spaces to one article only. An advertisement which first deals with some cheap umbrellas, then begins to talk about cameras, then goes on to describe wrist-watches, will tend to confuse. The matter wears a rather different aspect if a large space is taken, and the advertiser is a "general provider" with many departments in his business. The big general stores which handle everything from boots and shoes to cigars and cigarettes, naturally advertise on a different scale and in a different way from the small mail order merchant who sells one line only.

The Best Media.

It is difficult to indicate the best type of media for any particular advertiser or any particular goods. Probably there is no better medium than the widely-circulated daily paper for general goods, appealing to average men and women. But the daily paper is not necessarily the best medium for every commodity or every trader. The postal dealer in foreign stamps may well find that his best results come from advertisements in boys' journals. The trader who is handling domestic appliances such as mincing machines, patent irons, stair-rods, curtains, and toilet specialties may favour the papers published for women, and such papers—by their editorial policy—usually prove excellent media for mail order work.

When selecting media it is well to remember that the daily newspaper, with its more or less guaranteed and large circulation, is a known quantity. The potential market reached by an advertisement in such a paper can be very accurately judged and worked out. But with papers of the "specialist" and technical class, the matter may be more difficult. Circulation figures are not always available, and new papers catering for certain "hobbyists" are frequently appearing. Careful scrutiny is necessary to avoid waste advertising, and the paper should be approached for definite circulation figures before space is booked.

Change "copy" periodically, though not too frequently. The first advertisement might well run for a fairly long period—after which new

"copy" can be written, and a new "angle" perhaps found for selling talk.

Remember that—apart from the actual orders which your advertisement brings—its insertion is building up goodwill and making your name and goods known. No system of "keying" will enable you to trace *all* results from press advertising, but if, after you have secured good business by such publicity, you are tempted to cut expense and drop the advertising, you will find, like many other advertisers, that sales drop too. Well-written advertisements, inserted in the right papers, bring results, and press advertising *must* receive your attention if you aim at complete success.

CHAPTER VI

THE INSIDE MANAGEMENT OF A MAIL ORDER BUSINESS

NOT a few mail order merchants have failed, *not* because they did not handle good selling lines, or advertise well, but simply because their internal organization affairs were lax and mismanaged. Although it has already been mentioned in these articles that mail order work is not an easy "arm-chair" sort of business, where the trader sits back and waits for the postal orders, the fact can well be repeated for the sake of emphasis. The idea is still about that mail order trading is capable of being carried on without system and method—that any old back room will do for accommodation, and that no office organization is required. Nothing could be more false. In a business where success depends on up-to-the-minute attention to orders, and where one mistake may lose an account for ever, all the business efficiency possible is needed—all the time. True, no commodious premises may be needed if the trader is working in a small way, and no great rows of filing cabinets need grace the office—but nevertheless, some sort of accurate filing system will be necessary; some orderly and reliable method of keeping track of payments, packing costs, sundry expenses, etc., will be needed, and before the first advertisement is inserted in the press, before the first consignment of goods is ordered from the suppliers, the trader should have mapped out some system for dealing with his inside office affairs.

Organization.

In the very early stages, when the business is small and probably takes only a limited amount of time to manage, very simple arrangements will doubtless suffice, but then the trader must build for the time when expansion comes, and when it will be necessary to engage additional staff to cope with the volume of orders. Organize so that your business is "elastic." A successful mail

order firm grows quickly—there is no standing still.

If the trader has no working knowledge of such fundamental features of business as costing, packing methods and charges, simple banking methods, the preparation of a trading and profit and loss account, he will do well to read up such matters in other sections of this work—or he might with advantage consult some business friend whom he can trust. In this connection, it should be said

difficulties put before him, he will do everything possible to help. Although your account at the bank may be a small one, it is nevertheless highly prized, and the big banks are more and more giving careful attention to the affairs of the small trader.

Purchases.

One of the first things to put on a sound footing in connection with your office records is the matter



Photo

Kealeys, Ltd.

SECTION OF LABELLING DEPARTMENT
(T. G. Tickler, Ltd.)

that a bank manager, if approached in the right way and told the facts of the case, can usually offer much sound advice. The financial side of the business will, in any case, come within the knowledge of your bank manager, and if you make him a friend, your financial matters will be smoothed very considerably: he will advise you on matters of insurance, securities, possibilities of bank assistance, and show you ways of keeping in close touch with the financial side of the business. The young trader is usually a little bit afraid of a bank manager—there is a certain amount of “awe” about a bank and its doings, but if the manager is taken into confidence, and

of purchases. Suppose a trader has fixed up with a Birmingham firm to supply him with metal mascots, to sell through the post. Interviews may have taken place, or the whole matter may have been settled by correspondence. In any case, a definite contract will have been placed at a certain figure. Be careful to record the full contract details at the time—and get everything clearly stated in writing. There are several points to watch—

1. Quality of the goods.
2. Prices and discounts.
3. Deliveries.
4. Time and method of payment.

Quality.

With regard to quality, this will have probably been fixed as the result of samples submitted—perhaps by competitive firms asked to quote. A “quality” pattern should be retained, and particulars noted that the order is placed on the distinct understanding that the approved quality is adhered to throughout the term of the contract. A clause on the order should read something like this: “Order placed subject to all deliveries being up to the sample submitted with your letter GH/R.5 of the 16th inst.” An approved sample should be kept in a secure place for reference at any time.

It may be desirable to place a trial order at first, with some understanding that if this is quite satisfactory, the bulk will follow. In any case, as your reputation is at stake, you will watch quality closely at every stage, and take matters up with the suppliers if anything is found faulty with any delivery.

Price Arrangements.

To avoid all disputes over price get the matter made perfectly clear when the order is placed. You may be able to secure favourable terms on a sliding scale, according to quantities taken, and in such a case, the order should bear some clear clause—safeguarding you so that you get the full benefit of any such arrangement. A typical price arrangement might be on the following lines—

5,000 Patent “Kutta” Pen-knives at 9s. 5d. per dozen, less 3 per cent if invoices paid by 15th of month following delivery.

Any excess over 5,000 knives ordered within three months from date of order, to be subject to a rebate of 3d. per dozen, as arranged.

The order on the suppliers should be made out on an official printed form, and should be in duplicate. A special duplicate order book can be obtained very cheaply, and the duplicate copy might be ruled on the back into columns so that all deliveries against the order can be marked off as made. This will not only act as a check on deliveries, but will also keep you posted every day as to the balance of the order.

Order Forms—Continuity of Supplies.

The rate of sales will show how long the total number of articles ordered will last, and when the balance comes down to “danger point,” new enquiries can be sent out to suppliers for further supplies. Remember that continuity of supplies is one of the most important things in the mail order business. When a demand has been created, and your goods have become well known, it is fatal to be “let down” by the suppliers, and every effort must be made to guard against this eventuality. Of course, if the article marketed is a patent, made and supplied by only one firm, enquiries to other houses are out of the question,

but at the same time the suppliers should be constantly approached to give better terms for the increasing number of articles ordered. You will naturally expect keener prices if you take 100,000 articles than if you can contract for only 25,000.

Packing Charges.

When arranging prices it is well to discuss the vital question of packing. Make sure just what packing charges will be treated as “extras”—and whether crates, boxes, wrappers, etc., will be credited on return in good condition.

Suppose the actual article sold is an ointment. The manufacturing chemists from whom this is purchased may be able to supply it ready boxed, but may not. If boxes have to be bought from a separate firm, and the ointment boxed in your own warehouse, the question of staff will crop up. Take care when engaging the staff. Upon their efficiency and zeal much of your success will depend. Treat them well, but make definite working rules which must be obeyed. Time-keeping should be enforced rigidly, and strict records kept. For a small staff, always under a supervising eye, a time-book may meet the case; but when the staff grows it is desirable to purchase a time-recorder—preferably of the small “signature” pattern—which will accurately show lost time. Every minute lost is a factor against success—deal with offenders firmly. Train the packing staff so that the work is speedily done, and the articles neatly packed.

If boxes have to be bought from a separate house a delivery record for them will also be necessary, and deliveries will have to be arranged so that the position never arises when you have adequate stocks of, say, ointment, but no boxes.

Remember that as soon as you engage even one girl in your warehouse, you are responsible for looking after health and unemployment insurance matters, and must see that the requisite books and cards are being kept.

Payment of Accounts.

Payments to suppliers should be treated methodically, and their accounts filed securely with receipts. Every account should be carefully scrutinized and compared with the terms stated on your order. All discounts and rebates due should be deducted, and any queries at once raised with the suppliers.

Obviously, one of the biggest items in the office organization will be the dealing with incoming cash. If every order has to be accompanied by the full remittance, the matter is a simple one—requiring only a simple set of books, and prompt banking arrangements.

The first book to obtain is the Cash Book—a book indispensable to almost every business. If

the system of trading is a purely cash one, where before any article is mailed, the cash has been received, the Cash Book may be almost the only real book-keeping book kept by the trader. It should be ruled into two columns, and should show every amount received, and every amount paid out. But if every individual item were entered, the book would fill very quickly, so summarizing is usually resorted to. But every

When the morning's post is opened (and this, by the way, should be done carefully, so that no postal orders, cheques, notes, etc., get mislaid) every remittance should be entered in the Day Book, under the day's date. If the business is one dealing in two or three kinds of goods—say towels, curtains, and stockings—the goods ordered should be recorded, so that it will be easy to analyse the cash received. Thus—



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A MANAGER'S OFFICE
(The Pepsodent Co.)

day's takings should be clearly shown, and at the end of every week the mail order trader should be able to see at a glance just what money has been received during the full week. A little sum in arithmetic should give the result: "Week ending 4th January. Cash received: £45 10s."

If only one article is being handled, and the total costs of purchase, packing, mailing, etc., have been worked out, the week's profit can readily be seen—and week by week the trader can know just how he stands and how the business is prospering.

A rough Day Book might be kept, wherein could be entered details of all cash received.

March 17.

Cash received per morning post :

	£	s.	d.
For Towels	17	13	6
„ Curtains	9	—	—
„ Stockings	11	14	6
<i>Total</i>	<u>£38</u>	<u>8</u>	<u>—</u>

The figures given are, of course, fanciful ones, just to demonstrate the method of entry.

Early in the day pay the necessary visit to the bank—your cash is safe once it has been banked, and if Treasury notes are among the remittances, the longer they are in your office the more likelihood

there is of robbery or loss. You will naturally have made suitable arrangements with the bank as to Current and Deposit Accounts, and in a business-like mail order, it is desirable to have a fair amount of money available on Current Account, as "bargain" purchases are often met with, and it is helpful to have a fairly substantial amount on Current Account, so that such lines can be snapped up and paid for as soon as noticed.

Packing the Goods.

The mail order merchant will have to pay very careful attention to all questions connected with *packing*. Goods carelessly packed will not carry safely through the post, or *via* carriers. And there is another important aspect of the question: goods should be neatly and well packed because such packing has a definite sales value—it impresses the recipient of a parcel favourably, and acts as a further bit of "free publicity." The purchase of packing materials should be dealt with methodically, and in a business-like way. It is expensive to buy, say, brown paper in odd lots from a local stationer's shop. It is the same with twine, corrugated strawboard, tissue paper, etc. Bulk orders should be placed wherever possible, and whilst it may not be practicable to buy direct from the actual *makers*, it should certainly be possible to buy from the big wholesale houses and get favourable terms.

When a mail order business has been running some little time, it is easy to form a fairly accurate estimate of the probable usages of twine, paper, cardboard, etc.—and a proper "Buying Specification" should be drawn up before supplies are ordered. Suppose the trader discovers (maybe to his surprise!) that he has used one and a half tons of "Kraft" paper for packing purposes, in eight months. He should take account of his warehouse accommodation, study the market prices, and make up his mind to place a big order on a wholesale firm—unless, in the case of this particular commodity, he can buy direct from mills.

If the warehouse permits of a good stock being carried, enquiries should be sent out to the best firms in the trade, giving all details as regards delivery required, quality of the material necessary, and asking for good testing samples with the estimates. When the estimates arrive they should be compared, the various samples tested, and a comparative table made out to show the most favourable quotation. Various factors may operate in the matter—other than the one of *price*. Prompt and regular delivery is all-important, and if an order is placed for two tons of paper, delivery might be arranged on the basis of 5 cwts. weekly. It follows that the contract should be placed with a house which can be relied upon to fulfil its delivery promises *without fail*. If the trader resides in Leeds, and one of the estimates is from a Leeds house, with a large local

stock warehouse, the fact should be taken into consideration in placing the business—even if the price is a fraction higher than that of a competitor. Buying on a price basis is all very well, but quality must also be considered. A poor packing paper may mean parcels damaged in transit, goods lost, and inconvenience all round. It pays to buy a grade of paper that looks well, and will adequately protect the goods on any journey.

Twine, if ordered in fairly large quantities, can be purchased from the actual manufacturers. Sample cards can be obtained which show the respective thicknesses and strengths of the various grades—Italian, hemp, cotton, etc. Twine is known by certain code numbers, and No. 302 hemp might be taken as fairly representative of a good twine for parcels of fairly large dimensions, but not of excessive weight. Twine orders should be as large as possible to get keen terms, and quotations will generally be on the basis of so much per dozen pounds. The same remarks as to quality apply here: a poor shoddy twine will cause no end of trouble in the packing department, slow up the work of the packers, and parcels will not be as secure as is necessary.

Labels.

Then there is the important matter of labels. Now a label can be just a label, or a smart piece of advertising matter in addition. It is worth going to some trouble to design an attractive label, and get it printed if possible in bright colours. Such labels act as silent messages of your house, wherever your parcels travel. You have got to buy labels anyway—why not buy useful ones, with a sales message?

If the goods handled are of a fragile nature, it will be necessary to use—perhaps—corrugated strawboard in addition to brown paper and inside "tissues." Buy all packing requirements on a bulk scale, stocking as much as is convenient. It will safeguard against being "let down" at rush times, and ensure keener prices than if little odd lots are purchased from time to time.

Necessity for Good Organization.

The mail order trader, when approaching the various problems connected with the inside administration of his office and warehouse, must regard his business as seriously as the man who sells through shop channels. There is the tendency to look upon mail order activities as something of a "loose" nature, requiring none of the constant attention demanded by the more usual shop business. This fallacy has been often exposed: mail order, by its special nature and peculiar trading methods, is a business which demands unremitting attention, skill in organization, and a wonderful amount of perseverance in "following up" likely avenues of trade expansion.

Run your office on strict business lines. Be a real, live "head," with authority over the staff; avoid creating the impression that you are a "get rich quick" trader, with loose ideas of business morality. The thriving mail order trader is he who brings real "service" into his business, and desires to establish a name for honest value, prompt despatch, and strict integrity.

Little details count enormously. The writer recalls an instance of a mail order merchant, working from a small office warehouse in a side street. The premises were unpretentious, certainly, but they could have been kept clean and tidy. A buyer called one morning, and the chief and most lasting impression he carried away with him was—the dirty condition of the brass name-plate on the outer door of the premises! A small thing, but indicative of slack methods!

Cash Trade Preferable.

The beginner in the mail order business is well advised to concentrate on a *cash* trade. Credit business in this trade demands complicated book-keeping methods, more capital, and is not to be recommended at the outset. It will be found that advertisements which specify that remittance is required before goods are despatched, will bring

in plenty of orders if the goods are right, and the appeal framed in the correct way. On such a trading basis there are no bad debts, book-keeping is a fairly simple matter, and the trader (often a man with but limited means) is enabled to build up a useful reserve at the bank. At a later stage the question of a credit business can be examined, and if favoured, entered into with the assurance that there is a reserve fund to meet any contingencies.

New Lines.

In this country mail order activities have up to the present been more or less confined to the smaller types of articles, although such things as billiard-tables are sold through the post. The young trader should not endeavour to start "new fashions" in mail order goods unless he is pretty sure that the goods selected are such that the *Britisher* will consider buying through mail order channels. Because grand pianos, folding boats, canoes, and motor-cars are sold by post in America, it does not follow that the home public will ever take kindly to such methods for the bulkier types of goods. But in reason, the trader should be ever on the watch for "new lines." In this business *originality pays!*

SECTION 43

The Use of Statistics and Graphs

By R. W. HOLLAND, O.B.E., M.A., M.Sc., LL.D.

CHAPTER I

INTRODUCTORY

THE business man realizes that the proper keeping of accounts is one of the elements making for successful business, and that unless he can rely on his books and on the final accounts, namely the Trading and Profit and Loss Accounts and the Balance Sheet, abstracted from the books, he is not in a position to judge the progress of his business. There is a tendency on the part of the man of business to look only upon the net profit and its effect on the Capital Account; but there is another use to which the thinking man will put his figures. A careful examination and comparison of figures will often aid the trader in tracing the cause of waste or loss. Comparison of turnover with cost of fuel in a given year or with cost of carriage may yield little, but if turnover in several years be compared with carriage in the same years, the trader will perhaps begin to enquire more closely into his costs. If, for instance, turnover in two successive years is £15,000 and £13,500 respectively, and carriage outwards is £300 and £325 respectively, the trader who is negligent will say that carriage is up £25. Really it is up a good deal more, since the value of goods carried is down by £1,500, that is by $\frac{1}{10}$ or 10 per cent. Carriage should be down in proportion, that is by $\frac{1}{10}$ or 10 per cent, in this case £30. So that the result should be

1st year, £15,000 turnover; £300 carriage.

2nd year, £13,500 " " £270

In reality carriage is £55 up and not £25. The question then arises—What next? The answer, an enquiry into the cause of the increase and an endeavour to remove the cause.

What Statistics Are.

Statistics in business give us the numerical facts upon which we may proceed. In themselves they tell us nothing, but when arrayed with other matters to which they are related they are a great assistance to the trader. Professor Bowley says that "Statistics are numerical statements of fact in any department of enquiry placed in relation to each other." To the business man statistics in themselves are useless. It is the use to which he puts them that is important. The work is not finished when the statements of fact

revealed by the books of the business are placed side by side. The next step is to interpret the relationship and to study its meaning, and having done this to profit by the study; either being satisfied with things as they are, or cutting down expense here and improving methods there. Many firms draw up comparisons and detailed statements of numerical fact whilst failing to profit by them. The work of the business statistician is not merely to arrange numerical facts in relation to each other, but he must apply the theory of probability to known facts of the past in order to obtain results which may be of benefit in the present and the future.

Numerical statements are not statistics if they deal with isolated cases, since no inferences could be drawn from such cases. Thus, the statement that gross profit is £20,000 conveys nothing of value unless something more is known. There must be a relationship to be established, and for comparison the basis of relationship should be maintained in future comparisons.

Thus, gross profit of £20,000 on a turnover of £60,000 is understandable, as is gross profit of £20,000 on a total purchase of £35,000 worth of goods; but a comparison of these two will tell us little, for we should keep to the same basic relationship. This will be understood if we say that 20 per cent of the persons in the city of Axeter had smallpox in 1700, and then say that 10 per cent of the persons who had been vaccinated in the city of Axeter had smallpox in 1880. We cannot tell whether more or less people had smallpox because our basis of comparison has shifted.

If, then, you have placed your accounts on a proper basis, do not change your methods for the sake of changing. Retain consistency and comparisons become possible. Do not draw conclusions from figures alone but remember related facts. Thus, the gas bill may be increased from one or more of several causes; the quarter may have been unusually dark and gloomy, as in the March to June quarter, 1923; the gas may have been particularly poor owing to external causes; there may have been a leak in the supply pipe; or the cost per unit may have increased whilst consumption has been stationary. Do not jump to conclusions; use statistics warily, weigh carefully and you may obtain untold value from your statistical tables.

Statistics are of great use for measuring the

progress of a business, for making comparisons between facts of the business or businesses as they emerge in the figures. They are of infinite use to the trader who runs branch shops, as by their means he can reduce costs to a minimum by comparing, and on the basis of comparison eliminating waste.

example, all journeymen in a given trade are paid the same basic rate of wages and are consequently treated as a statistical class. If we examine a group or a class as to numerical qualities and repeat the examination monthly or quarterly so obtaining information, we obtain in this way a statistical series. All of these ideas are of value,



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Groups and Classes.

Statistics are applied to groups, classes, and series, and for the purpose of this study a group is a number of things similar in type but differing in some measurable particular, as, for example, the workers in a shop are similar in type but they may differ in wages according to age, work done, and the like. If members of a group can be collected together in such a way that the various units differ in no measurable particular, these units constitute a class, and any numerical statement regarding them is a statement as to a class, as, for

and as our study develops we shall see how they can be used in business. The point to be made at present is that a statement about an isolated thing is of little value. That Smith, a clerk on the Stock Exchange, makes £10 a week, and occupies with his wife and two children a villa at Surbiton, and can save £2 weekly out of his salary, may be interesting, but it is information of no statistical value unless it can be shown that all Smiths *similarly situated* can save the same amount, in which case the savings of the class to which Smith belongs may be said to be £2 weekly on an income of £10 per week. This brings us to the subject

matter of our next chapter, which deals with the obtaining of information upon which statistical statements can be made and inferences drawn.

CHAPTER II

TAKING SAMPLES

INFORMATION as to the numerical qualities of groups of persons or things will be quite definite if every unit in the group can be carefully examined and numerical facts collected and compared for every case, but this is a practical impossibility, and we have to be satisfied with the examination of typical examples. The business man is told by the manufacturer that his loom will require a certain power, that his gas engine will consume a certain amount of gas for a given amount of work to be done, that his heating apparatus will cost him so much per hour. In none of these cases has the actual machine been tested, but other machines of a similar type have been tested, and if the particular installation follows its type the same results may be expected. Consequently statisticians select typical examples in sufficient quantity from the group, and as these vary in greater or less degree, the results are averaged and numerical statements based on the average are taken as the normal condition in relation to such group. The selection of examples is known as sampling. In a mineral vein the important ore is unequally distributed, and if we choose five places from which to take samples an analysis will indicate a variety of richness, but any reasonable man will concede that the average richness will represent possibly a measure of the value of the vein. It would be unfair to make statements with regard to the poorest quality and equally unfair with regard to the richest, the mean being a more satisfactory basis from which to work. Similarly in business the output of the fastest worker is not the type upon which to base statements, nor yet the output of the poorest or slackest hand. The average is the figure which is most likely to give the employer an idea of his total output in advance.

Utilization in Stocktaking.

The principle of sampling can be utilized by the tradesman in his stocktaking. Where stock is kept well under control and the outsides of packages are marked clearly with the quantities that the packages contain, and each time articles or quantities of material are removed appropriate deductions are made and marked on the packages, stocktaking is simplified, but it is not sufficient for the employer to accept the markings, since with unscrupulous employees he may be victimized. Tests should be made of the accuracy of parcels here and there. The method of keeping stock would be futile if an examination of the whole

took place, and the most scientific method would be to choose samples and examine the haphazard choice. Care should be taken to avoid testing or counting the contents of parcels closest at hand; the least obvious are equally entitled to consideration. The principles of sampling apply to numerous matters in business, and in any case where time does not permit of an examination of every unit, sampling will be the next best principle to work upon.

Averages.

From a statistical point of view the taking of samples leads us to a consideration of averages. If, on the examination of a typical number of individuals in a trade, we discovered that their weekly earnings were 50s., 52s., 53s. 6d., 55s., and 49s. respectively, and these individuals had been chosen haphazard from some thirty similar individuals, we should have sufficient data upon which to give the average of the whole group within certain limits which depend upon the accuracy of our sampling. The average wage of the group would probably be the total of the five samples taken divided by five, namely, 51-9 shillings per week. The greater the number in a group and the greater number of samples taken, the greater will be the accuracy of our conclusions. Where the group is small and the samples few, one abnormal example, say a case in which the wage was found to be 30s., would seriously reduce the average.

This principle can be applied in business. The wholesale seedsman takes from the bulk a certain quantity of seed, and using appropriate tests discovers something as to the productivity of his seeds. He is in a position then to state that his goods, properly planted and tended, will produce certain results because he knows from his tests what the average result should be, and on the theory of probability, seeds when sold will approximately agree with the samples tested, and consequently give the same results as to productivity. Similar instances can be cited with regard to other commodities. What is done in the shape of work by a sufficient number of tested articles will very probably be done by the average article of the kind placed on the market. We cannot generalize on the individual case; it may be abnormally defective or abnormally effective, but if we take sufficient instances any abnormal feature will be eliminated by averaging.

Suppose we take fifty-two weeks of the year, and desire to state in rough terms the weekly turnover of a business or some special department, we can either take the sum total for the fifty-two weeks and divide by fifty-two, or select haphazard, say, some half-a-dozen weeks, and take the average of those. It will be seen that in order to get a fairly accurate figure a good number of weeks will have to be selected. Suppose the average proceeds of an American Soda Fountain were required,

it would be necessary to take a sufficient number of weeks in order that abnormal times of heat or intense cold might be eliminated. In fact, the average daily takings would be more accurate as there are a greater number of days in the year, and consequently we could afford to sample from these rather than from weeks.

CHAPTER III

THE ARITHMETIC OF STATISTICS

STATISTICS may profitably be used in costing, in advertising, in estimating the possibilities of future business, and in many other directions in business. The science is not an exact one as it is impossible to eliminate entirely the human element. It is merely the "science of probabilities" based on the assumption that what has happened in the normal way of business, given certain conditions, is likely to happen again under the same conditions. If it is desired that the same happenings shall follow, it is the aim of the man of affairs to maintain the same conditions, whilst to change the results a modification of the conditions will be necessary. Statistics are to the business man a numerical record of the facts of his business, not only of his accounts but of his commodities, his plant and its efficiency, such data as is available relating to his competitors, his markets, and the conditions of general trade. Some knowledge of arithmetic is necessary, and to this aspect of the study we will now turn our attention. A knowledge of decimals is essential, and the study of approximate methods of dealing with decimal quantities will be useful. The calculation of averages and percentages will complete the necessary requirements. It is quite unnecessary for the business man to worry about scientific or technical terms, but at the same time a glance at such terms as are common will by no means prove a waste of time.

Degree of Accuracy.

Accountancy is an exact science which deals with exact measurement. There can be no question of round numbers or correctness within limits, but in statistical work which is a question of estimates or probability, absolute accuracy is impossible. In comparisons, however, it is necessary that the degree of accuracy, like the unit adopted, shall remain constant. Thus, in working out cost of production of a given standard commodity we may use as our unit for comparison the cost of the work per man per hour or the cost per man-hour. This may be obtained correctly to the fourth place of decimals, say, 2.3225 shillings per man-hour. All future calculations must take this into account, since final results in bulk production would contain a serious error if we are

satisfied with a figure correct only to three places, say, 2.3185 which, if worked out to four places, might have been 2.3183 shillings.

Error.

The first technical term used in relation to the arithmetic of statistics is the term "*error*." The term has not, in this case, the popular meaning of mistake, since the "error" is either deliberate or is known to exist. In handling large numbers it is usual to approximate, e.g. £101,745 for most statistical purposes may be quoted as 101.75 thousand pounds. The error in this case is + £5 or $+\frac{£5}{£101.75}$ per thousand. The *real* error, or as it is termed the *absolute error*, is £5, whilst the error as related to £1,000 is $\frac{£5}{£101.745}$ and is called the *relative error*. It is often essential to know the limits of error in dealing with data, particularly when performing additions of approximate quantities. If we take our figures to the nearest hundred the error may be negative as in 710, the nearest hundred being 700, the error being -10; or it may be negative as in 685, the nearest hundred being again 700, the error being +15. If numerous examples are taken these errors will rectify each other in the long run and are said to be *unbiased*. On the other hand, we may take the next higher figure in the hundreds, in which case the error is always on one side and accumulates in the total and so is *cumulative* or *biased*.

TABLE I
SHOWING EFFECT OF ERROR ON TOTALS AND AVERAGES

	Output in tons.	Nearest 100.	Un- biased error.	Next higher 100.	Biased error.
	7,153	7,200	+47	7,200	+47
	8,716	8,700	-16	8,800	+84
	4,590	4,600	+10	4,600	+10
	3,182	3,200	+18	3,200	+18
	6,549	6,500	-49	6,600	+51
	8,705	8,700	-5	8,800	+95
Total	38,895	38,900	+5	39,200	+305
Average	6,482.5	6,483.3	+.8	6,533.3	+50.8

Approximations such as occur in the foregoing table are useful in graphical representation where a bird's-eye view of numerical facts is required.

Arithmetic Average.

Two kinds of average are useful in statistical work, firstly, what is distinguished as the *arithmetic average*, which is merely the sum of a series divided by the number of items in the sum. Thus, weekly output may be 80, 75, 68, 72, 75, 77, 82, and 84 machines respectively in each of the eight

weeks; the average is the sum of these divided by 8.

TABLE II

Output to be averaged. Machines.	Average estimated by inspection.	Difference Col. 1 and Col. 2.
80	76	+4
75	76	-1
68	76	-8
72	76	-4
75	76	-1
77	76	+1
82	76	+6
84	76	+8
8)613	76	+5 ÷ 8
76.625	76.625 machines.	

Column 1 shows one method of averaging, whilst columns 2 and 3 show another way to arrive at the same result. A rough average of the eight items is the average of the smallest and greatest, namely 68 and 84, which gives 76. Notice that column 3 is found by calculating the deviation of output week by week from the computed average 76—

1st week 4 more machines = + 4.

2nd „ 1 less „ = - 1, and so on.

Total deviation is + 5 spread over eight weeks, making an average deviation of +.625 of a machine. Hence the real average as ascertained in column 1 is 76 + .625 machines.

Moving Average.

The average in the above sense may be used as a standard of comparison for business done. It is unfair and not always profitable to compare business with a year of exceptional profit or exceptional loss, and by taking an average over a long period of years external causes of varying trade can be eliminated. On the other hand, this does not allow of eliminating from our comparisons the effect of a change in policy, an expansion in capital, or improved methods of production. The fairest form of average for comparison purposes is that adopted by the income tax authorities, which is a moving average. Let the following represent ten years' profits of a business: £700, £800, £750, £1,050, £1,200, £1,100, £1,080, £1,100, £1,200, £1,150. It will be noticed that for three years the normal profits are £750 on the average. In the fourth year these increase to £1,050 and the £750 is no longer a fair basis of comparison. If, like the income tax authorities, we take three years' average as our standard, we eventually approximate more nearly to normal, and by doing this on what is known as the *moving average basis* we change our standard gradually, and whilst in the long run paying tax on *all* profits we are not called upon to make a big jump in the fourth year or the

fifth since we get the benefit of previous years' low figures. Similarly, if profits decrease at the other end, the tax payable does not immediately fall in proportion—

	(2) 866.6	(4) 1116.6	(6) 1093.3	(8) 1,150
£700	800	750	1,050	1,200
1,100	1,080	1,100	1,200	1,150
750	1,000	1,126.6	1,126.6	
(1)	(3)	(5)	(7)	

The moving average in three year periods is £750, £866.6, £1,000, £1,116.6, £1,126.6, £1,093.3, £1,126.6, £1,150, obtained by taking average of three years and then dropping a year and taking another average as shown. It would be useless to compare the tenth year with the first, but by taking a sufficiently long series of years we can use as a standard, say, the moving average for ten years, and compare with the current year. This moving average shows the *TREND* of the business. Whilst an occasional year may be abnormal the abnormal element is spread over a ten-year period, and the average gives a picture of the progress of the business. This will be made clearer when graphical representation is considered. Not only profits but turnover and individual items of expense of production such as wages, carriage, raw materials, repairs, etc., may be averaged, and, for purposes of comparison with current expenses and turnover, the moving average of a series of years is the fairest standard as showing the trend or tendency of expenses to increase or decrease. Having made the comparison do not leave the matter there but look for the causes of disagreement from standard, and if they are obnoxious eliminate them.

Weighted Average.

The arithmetic average in its fixed or moving form is not always adequate for business purposes. Suppose that a firm makes three grades of motor-cars, £150, £270, £450 being the respective selling prices. Now the average-selling price will be the total turnover divided by the number of cars sold, say, $\frac{£111,000}{420} = £264\frac{2}{3}$, average selling price. It would appear that the average price of a car is $\frac{£150 + £270 + £450}{3} = £290$, but this is not so. Say that 200 cars at £150, 100 cars at £270, and 120 at £450 are sold. Turnover is $200 \times £150 + 100 \times £270 + 120 \times £450$, and average per car is $\frac{\text{Turnover}}{\text{Number of cars}} = \frac{111,000}{420}$.

This type of average is called a *weighted average*, although it is still an arithmetical average.

Notice that the price remains the same but the number of cars may vary, the non-variable (price) is averaged and the variable (cars) are the weights



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which affect the results. It is not necessary to use the actual numbers of cars if the proportions remain alike, thus the same result is obtained from

$$10 \times £150 + 5 \times £270 + 6 \times £450 \div 10 + 5 + 6$$

as from

$$200 \times £150 + 100 \times £270 + 120 \times £450 \div 200 + 100 + 120$$

Similarly where the weights are awkward numbers, they may be approximated and the errors will usually compensate one for another. Thus, if 225 sacks of grain cost 54s. 6d. per sack, 321 cost 59s. 6d. per sack, and 415 cost 63s. 6d. per sack, the average cost per sack is not

$$\frac{54/6 + 59/6 + 63/6}{3}, \text{ but}$$

$$\frac{54/6 \times 225 + 59/6 \times 321 + 63/6 \times 415}{225 + 321 + 415}$$

$$= \frac{12262.5 + 19099.5 + 26396}{961} = 60.1 \text{ shillings.}$$

Now 225, 321, 415, have no common factor so that weights cannot be reduced to make smaller numbers, but we can safely approximate. Roughly speaking

$$\begin{array}{lll} 225 & 321 & 415 \\ = 3 \times 75 & = 3 \times 107 & \\ = 2, 3, 3, 3, 4 \text{ (216)} & = 3, 3, 3, 3, 4 \text{ (324)} & = 3 \times 138 \text{ roughly} \\ & & = 3, 3, 3, 4, 4 \text{ (432)} \end{array}$$

Take out common factors and use remaining numbers as weights, that is take out $3 \times 3 \times 3 \times 4$, leaving 2 representing 225; 3 representing 321; 4 representing 415. Then—

$$\frac{2 \times 54/6 + 3 \times 59/6 + 4 \times 63/6}{2 + 3 + 4} = \frac{109 + 178.5 + 254}{9}$$

$$= \frac{541.5}{9} = 60.2 \text{ shillings.}$$

This shows that approximate weights will answer for many purposes. In this way the representative price of grain of the same quality bought at various prices could be ascertained either accurately or approximately. The business man does not require reminding of the value of this process in these days of fluctuating prices. By selling his stock as if 60.2 shillings per sack were the buying price of the lot he will prevent loss even on corn at 63s. 6d.

An Example.

Table III which follows can now be considered. It represents sixteen years' gross receipts, gross expenses, and gross profits of a business, together with five years' moving average of each item. Notice that the sudden changes due to various causes (as, for example, the outbreak of war in 1914) are eliminated or take effect more gradually when an average is taken. The longer the period of average, the greater is the effect. The average of expenses in the pre-war period was about £9,700, whilst the normal turnover was roughly £10,000. Expenses should not increase in proportion to receipts, but in the business in question wages form the bulk of the expenditure, and naturally these rise with output as shown in the 1920 figure.

TABLE III

Year.	Gross Receipts in £s.	Gross Expenses in £s.	Gross Profit in £s.	Receipts Moving 5 yrs. Av.	Expenses Moving 5 yrs. Av.	Profit Moving 5 yrs. Av.	Years of Moving Average.
1905	10,340	9,636	704	—	—	—	—
1906	10,261	9,076	1,185	—	—	—	—
1907	9,970	9,338	432	—	—	—	—
1908	10,938	9,647	1,291	—	—	—	—
1909	11,256	9,871	1,385	10,553	9,554	999	1905-9
1910	10,669	9,786	883	10,619	9,584	1,035	1906-10
1911	10,448	9,855	593	10,656	9,739	917	1907-11
1912	10,732	9,791	941	10,829	9,750	1,079	1908-12
1913	11,553	10,102	1,451	10,952	9,881	1,071	1909-13
1914	8,726	8,508	218	10,446	9,608	838	1910-14
1915	8,802	8,367	415	10,072	9,329	743	1911-15
1916	9,268	8,565	703	9,836	9,071	765	1912-16
1917	10,076	8,603	1,473	9,705	8,833	872	1913-17
1918	13,209	9,536	3,673	10,034	8,946	1,088	1914-18
1919	21,917	12,936	8,981	12,672	9,832	2,840	1915-19
1920	22,590	17,890	4,700	15,430	11,732	3,698	1916-20

CHAPTER IV

TABLES AND GRAPHS

THE business man is the best judge of the particulars which he wishes to follow, and no difficulty will be experienced in selecting the material relevant to his enquiry. In practice his work may be intended for the information of others and it is necessary for him to present it in as simple a form as possible.

Tabular Statements.

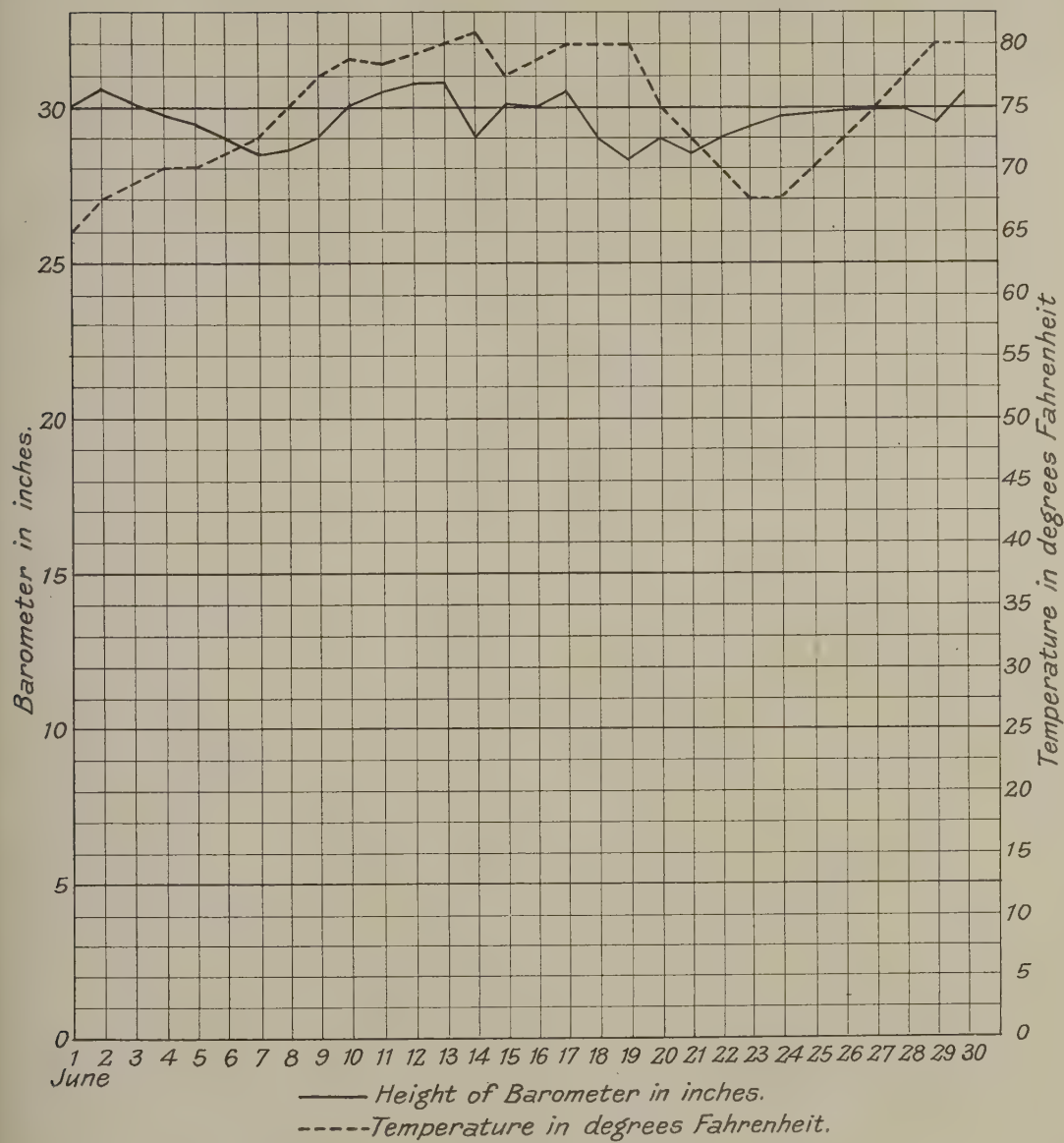
For this purpose he may desire to put his statement in tabular form. Thus, the weekly returns of business done and cash taken in a chain of multiple shops may be required by the managing director. Such a return might take the form of Table IV (p. 963).

The table of weekly returns is quite easy to follow and is useful for comparison. Other tables, e.g. Table III, above, will be found of interest.

The Graph.

Another method of presentation is the graph, which could be utilized to illustrate Table IV and to show at a glance the progress of the business during the year. Graphical representation takes the form of curves and figures in the shape of blocks, bars, and circles. They are useful to give a bird's-eye view of the happenings in a business, and they should not be used unless they make the numerical position clearer. They are directed towards clearness of representation and they add nothing to our knowledge.

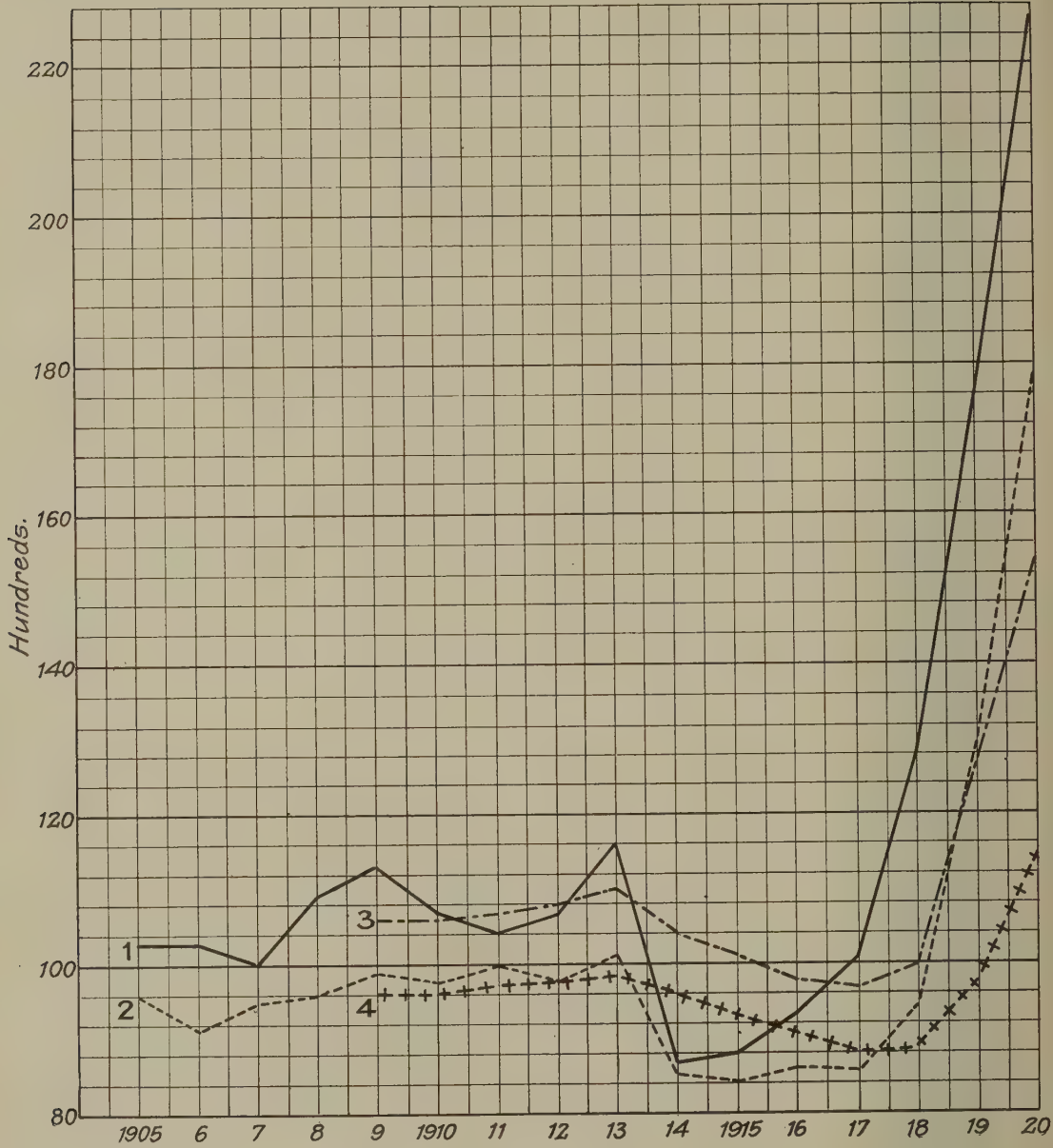
The chief function of the line graph or curve is to indicate tendencies, or, as we have called them, the *trend*. Changes in output, profit, expense, turnover, wages, and elements of cost in successive financial periods may be illustrated, and as an example we will illustrate the data given in Table III by means of a graph—first, however, explaining the principles involved.



GRAPH I

EACH SQUARE = 1 INCH FOR BAROMETER

FOUR SQUARES = 10° FOR THERMOMETER



GRAPH II

1. GROSS RECEIPTS. 2. GROSS EXPENSES
 3. MOVING 5 YEARS' AVERAGE OF GROSS RECEIPTS
 4. MOVING 5 YEARS' AVERAGE OF GROSS EXPENSES

TABLE IV

No. of week in Financial Year.....5.....

Shop.	Business done in £'s.				Cash taken in £'s.			
	Moving Weekly Average for 5 years.	Corresponding Week, 19..	This Week.	Total to date.	Moving Weekly Average.	Corresponding Week, 19..	This Week.	Total Takings to date.
11 Hyde Road, Chorlton . . .	350	392	387	1,747	330	360	401	1,681
7 Market Street, Denton . . .	410	417	391	21,09	415	395	385	2,251
13 Piccadilly . . .	870	850	914	4,325	861	870	861	4,217
Central Stores . . .	1,060	1,107	1,211	6,012	1,013	1,120	1,191	5,871
Total . . .	2,690	2,766	2,903	14,193	2,619	2,745	2,838	14,020

Weather Charts.

Everyone is familiar with the weather charts indicating barometric pressure. In these charts we have two items, namely, a given day and a given barometric pressure. If we note the days on a scale, and then mark vertically above each particular day the height of the barometer on that day, we have a series of points. If these are joined we produce a line rising and falling just as the pressure rises and falls. If we cared to do so we could add a temperature line using a different means to indicate the temperature at the same time as the pressure is taken. The result shown in Graph I would be something like what we should observe.

Dealing with Large Numbers.

In dealing with large numbers when a square represents 100 units, it would be impossible to mark variations beyond, say, 25, which would be done by dividing the side of the square into four parts, the first point representing 25, the second 50, and so on. In order to deal with large numbers we must approximate to the nearest 100, or 1,000, depending upon our scale. As graphs mark tendencies only, the approximation will not interfere with our results unless our scale is large. If we approximate the facts of Table III and produce a new Table V, we can illustrate Table III in graphs. Taking columns 1, 2, 4, and 5 of Table III we obtain the approximations shown.

In our graph we do not need to start at 0 but we may select any appropriate figure, usually a number near to but less than the smallest we are likely to deal with. In this case the smallest figure in Table V is 84, that is £8,400, the expenses of 1915, to the nearest £100. The largest figure is 226, representing £22,600, the gross receipts for 1920 to the nearest £100. The allowance of paper above the base line must be sufficient to record the highest figure likely to be attained. In this case we have to picture the figure £8,400 as lowest and £22,600 as highest points, showing an amount

of £14,200 between these points. Our scale is fixed according to our paper. The unit is £100 in the table and we wish to show 142 of these. If each square represents one unit we require a height of 142 squares, but we find 36 squares more appropriate and so fix each square as representing 400 or four units of the table. Mark along the base line the years, letting each year be represented by two squares. Then vertically above the date commence to mark the hundreds of pounds of receipts representing the successive years. Join the points and Graph II is obtained, showing how receipts varied over the sixteen years. Treat columns 2, 4, and 5 in a similar manner and join the points by means of lines of distinguishing character as shown. If we examine the graphs we find that the graph of the moving averages smooths out the sharp points of the corresponding graphs of yearly receipts and expenses. The average graphs show the tendency of the business without the sharp fluctuations due to external causes.

The business man may find these brief notes of use, and after consideration he may be in a position to apply them to other aspects of his business.

TABLE V
APPROXIMATION OF COLUMNS 1, 2, 4, AND 5 OF TABLE

Year.	Gross Receipts to nearest £100.	Gross Expenses to nearest £100.	Moving Average.	
			Receipts.	Expenses.
1905	103	96	—	—
1906	103	91	—	—
1907	100	95	—	—
1908	109	96	—	—
1909	113	99	106	96
1910	107	98	106	96
1911	104	99	107	97
1912	107	98	108	98
1913	116	101	110	99
1914	87	85	104	96
1915	88	84	101	93
1916	93	86	98	91
1917	101	86	97	88
1918	132	95	100	89
1919	219	129	127	98
1920	226	179	154	117

SECTION 44

Book-keeping for Manufacturers, Wholesalers, and Retailers

By F. F. SHARLES, F.S.A.A., A.C.I.S.

CHAPTER I

THE PRINCIPLES OF BOOK-KEEPING

EVERYONE in business must keep accounts at some time or other. The wise ones open their accounts when they open their business; others do not start to keep accounts until they get into difficulties, when very often, alas! the accounts are too late, except to show the Official Receiver how the failure has come about.

The proprietor of a business, though he employ a book-keeper, or even an accountant and a staff of ledger clerks, ought to be acquainted with the principles at least of book-keeping, otherwise he cannot be said to be controlling his business; since, without a knowledge of the principles of book-keeping, he will not be able to form an independent judgment on the figures put before him.

Whatever the nature of the business, its size and intricacies, the principles of its book-keeping are invariable and immutable. These principles will be set forth here as clearly as possible, and an explanation given of their application to: (1) a Manufacturing Business; (2) a Wholesale Business; and (3) a Retail Business. But, while the principles of book-keeping are unalterable, the method of their application must depend on the circumstances and conditions of the concern to which they are to be applied. Consequently, the methods of application explained here will, in practice, require to be adapted in some respects, but if the principles are understood, such adaptation should not be difficult.

What the Books Should Show.

Books should be kept to record all transactions concerning the business, and the records should be kept in such a way that they provide a bird's-eye view of the transactions and of the result of such transactions. The records could, if desired, be kept in one book, but for the sake of convenience, they are usually kept in a number of books, one for each class of transactions, a summary of these books being made in one book, called the Ledger. Thus, in much the same way as a trader keeps his cash in a till, and his goods in a store-room, so he usually keeps a record of his cash in one book, and a record of the goods he buys and sells in

other books. By this means he can at any time see how much money he receives and pays and how much he has left; and what goods he has bought and sold. But he requires to know more than that, because receiving a great deal of cash and keeping a large balance in the till does not necessarily indicate prosperity, as the trader may owe more than he has in his till, and, however large that balance may be, he may be insolvent. His books should show him his position in that respect, and also what is owing to him, and whether he is selling at a profit or a loss, and the extent of that profit or loss, and also what he would have left after paying off all his liabilities.

Objects of Book-keeping.

We can therefore say, briefly, that the objects of book-keeping are to show: (1) receipts and payments in cash or kind; (2) profits or losses, and how they arise; and (3) assets and liabilities and the capital. And in recording the transactions in the books we ought to be careful to see that they are entered in sufficient detail to enable us to understand them without having to rely on the memory, and that they are classified under suitable headings so that at any date we can find out what has been received and paid, what has been gained or lost, what assets we have, what we owe, and what capital we have left.

The person in business can very seldom assess his position by his actual possessions: he must add to them the amount of any debts owing to him, and deduct the amount of any debts owing by him. Thus, to use a simple illustration, if all I possess in the world are the suit of clothes I "stand up in," worth £5, and £4 in cash in my pocket, and my friend the Count of Monte Cristo owes me £6, my total assets would be £15. But let us suppose that I owe my tailor £7, then my capital would be £8, that is, £15 less £7. We will set the position out in a statement—

MY BALANCE SHEET

<i>Liabilities and Capital</i>		<i>Assets</i>	
	£		£
Amount owing by me to my tailor	7	Amount owing to me by Count of Monte Cristo	6
Balance—excess of assets over liabilities, i.e. my Capital	8	Suit of clothes	5
		Cash in pocket	4
	£15		£15



PORTION OF GENERAL OFFICES
(Messrs. Cadbury Bros., Ltd., B.)

The Balance Sheet of a business concern would, of course, be more complicated than the above, but in principle it would be the same, and its object also would be the same, i.e. to show the financial position, with particular reference to the balance called capital. A comparison of periodical balance sheets of a concern will show whether the capital has increased or decreased, but we may increase our capital by paying more money into the business, and at the same time be working at a loss. Therefore it is obviously necessary to know more than the Balance Sheet tells us, and this additional information is obtained from the statement called the Profit and Loss Account, which should accompany the Balance Sheet. This Profit and Loss Account sets out the expenses incurred in the business, and the income derived from it, the difference between the income and expenses being the profit or loss.

What is Profit ?

An important principle of book-keeping that ought to be fully understood at this stage is that receipts and payments are not synonymous with profit and loss, because it is possible to make a gain without actually receiving or paying a penny. Thus, A might agree to buy a bicycle from B for £5, and then, without actually handling the bicycle, or paying for it, sell it to C for £8, and instruct B to deliver the bicycle direct to C. A thus makes a profit of £3 without receiving or paying anything. Of course, he will receive the £8 from C, out of which he will pay the £5 to B, but that may not take place until some time afterwards, whereas it is correct to say that he made the profit at the time that he agreed to sell the bicycle. It is, therefore, important to record in books not only receipts and payments, but agreements and transactions involving profit and loss. Again, A may have received and paid a part of the money at the time he made the agreements to buy and sell, but that would not affect the amount of profit he made. Thus, when agreeing to buy the bicycle for £5, he might have paid £2 on account, and when agreeing to sell it for £8, he might have received £4 on account. A's position would have been as follows—

POSITION AS REGARDS CASH—	
Received on account from C	£ 4
Paid on account to B	2
Balance of cash in A's hands	<u>£2</u>
POSITION AS REGARDS B AND C—	
Owing to A by C	4
„ by A to B	3
Balance owing to A	<u>£1</u>
POSITION AS REGARDS PROFIT AND LOSS—	
Bicycle bought from B for	5
„ sold to C for	8
A's profit	<u>£3</u>

Let us now put these three statements in the form of a Profit and Loss Account and Balance Sheet—

A's PROFIT AND LOSS ACCOUNT

To purchase of bicycle	£ 5	By sale of bicycle	£ 8
„ profit as per Balance Sheet	3		
	<u>£8</u>		<u>£8</u>

A's BALANCE SHEET

<i>Liabilities and Capital</i>		<i>Assets</i>	
Owing to B	£ 3	Owing by C	£ 4
Profit as per Profit and Loss Account, being A's capital	3	Cash in hand	2
	<u>£6</u>		<u>£6</u>

It will be seen that when A has liquidated his position, i.e. received the £4 from C and paid the £3 to B, he will have £3 in cash, which will be the amount of the profit he has made.

Profit is therefore the excess of selling price over purchase price. But in business it is more complicated than that, because attendant on the buying and selling are certain expenses, and those expenses have to be deducted from the excess of selling price over buying price before the real profit can be arrived at. The excess of selling price over buying price is called gross profit, i.e. the profit before the expenses are charged against it; and the balance left after charging the expenses is called the net profit, i.e. the actual, final profit. We will develop the question of profit and loss further, but before doing so it is necessary to consider two very important principles of book-keeping and an incidental question of form.

Forms and Rules.

With regard to the question of form, accuracy is such an essential feature of book-keeping that the adoption of certain forms and rules has proved necessary. These forms and rules have become conventional and almost universal. There are considered and valid reasons for their adoption in each case, but that is a matter for the student rather than the business man, whose chief concern at this stage should be to remember that while these conventional forms and rules may be varied as regards detail, in the main they should be followed carefully. Thus book-keeping convention has decreed that the books shall be ruled in a certain way, and that the accounts kept in the books shall have two sides: the left-hand side being known as the debit side, and the right-hand side as the credit side. The abbreviation *Dr.*, meaning debit or debtor, is written at the top of the left-hand side, and the abbreviation *Cr.*,

two important principles referred to above. And it must here be stated as a definite rule, never to be broken: *that every debit entry must have a*

The ruling of other books and the setting out and the phraseology used will be seen by reference to the further examples given later. It will be noticed that the word "To" precedes every entry on the debit side, and the word "By" precedes every entry on the credit side.

The two principles referred to above are the principles of debit and credit, and of double entry. Debit and credit have distinct technical meanings, but it is sufficient to state here that a debit in book-keeping is an entry on the debit side (the left-hand side) of an account, and a credit is an entry on the credit side (the right-hand side). There are two rules which will enable readers to decide without much difficulty that which should be entered on the debit side and that which should be entered on the credit side. The first of these rules is: enter receipts on the debit side and payments on the credit side; or, more shortly, debit receipts and credit payments. Now in business, receipts and payments may be said to be in either money or "kind," kind usually meaning goods. Thus, if a trader, A, paid £100 for some furniture for his office, he would receive furniture, and would pay away money. He would say: "Now, I must enter this transaction in my Ledger, and as I have paid away cash, I must make an entry on the credit side of my Cash Account, in accordance with the rule 'credit payments.' But I have not only paid away money; I have received something—some furniture. Therefore, I must make an entry on the debit side, because of the rule 'debit receipts.' Moreover, as I want to keep a permanent record of all the furniture I buy, I will keep a separate account for furniture in the Ledger, and enter in that account particulars of all the furniture I buy." Thus it will be seen the transaction has a two-fold aspect: it consists of a receipt on the one hand, and as such must be entered on the debit side; and of a payment on the other hand, which must be entered on the credit side. This is the principle of double entry, the second of the

But now suppose that A, instead of paying cash for the furniture, had bought it on credit (i.e. to be paid for at a later date) from a man named Jones. A would have received the furniture, but he would not have paid for it—at any rate not immediately. A would say: “I have received the furniture, therefore I must debit my Furniture Account, and Jones has paid away the furniture, consequently, following the golden rule, I must enter the amount also on the credit side in my Ledger, and as I want to keep a permanent record of all the transactions I have with Jones, I will keep a separate account for Jones, and make the credit entry in that account.” In, say, a month’s time, A pays Jones the £100. A will enter the amount on the credit side of his Cash Account, and, as Jones receives the amount, on the debit side of Jones’s Account. Thus—

Furniture Account and Cash Account are in book-keeping known as "real accounts," real accounts being those that deal with property, or

material things. Jones's Account is called a personal account. Personal accounts are those that deal with persons. There is another class of account called "nominal accounts," in which are entered the trader's expenses, losses, income and gains, e.g. wages, rent, bad debts, profits on his sales, etc. We have seen that with regard to real and personal accounts, the rule for making entries is "debit receipts, credit payments." In the case of nominal accounts, the rule is "debit expenses and losses, credit income and gains. Thus if A pays rent of £50, he will record the transaction as follows in his Ledger—

CASH ACCOUNT (REAL ACCOUNT)

By Rent £ 50

RENT ACCOUNT (NOMINAL ACCOUNT)

To Cash £ 50

Similarly A will open accounts in his Ledger for all his other kinds of expenses, such as wages, salaries, postage, etc., and he can thus at any time ascertain his total expenses by totalling up his expenses accounts. Here we think it advisable again to warn readers not to confuse income with receipts. Income is gain, or profit, which can be made without receiving a penny, as will be seen by reference to p. 966. Nor must losses be confused with payments. We think that we cannot do better than summarize here the two rules for debiting and crediting, viz—

Debit receipts or losses ;
Credit payments or gains ;

and repeat the golden rule : every debit must have a credit.

Trading, Profit and Loss, and Capital Accounts.

We have now dealt briefly with personal, real, and nominal accounts. There are three nominal accounts of such a very important kind that we must consider them in further detail. They are the Trading Account, Profit and Loss Account, and the Capital Account. The Trading Account is a record in money terms of the goods bought and sold, and shows the balance of unsold goods in stock, and the profit made on the selling. As it is a nominal account, expenses (e.g. the cost of the goods) are entered on the debit side, and income (e.g. the proceeds of sales) is entered on the credit side. When it is desired to ascertain the result of trading, the trader will take stock, and enter the value of the stock on the credit side of the Trading Account because it is a gain ; that is to say, it is a potential gain that must be taken into account before the result of trading can be ascertained. If the gains as shown by the credit side now exceed the expenses as shown by the debit

side, there has been a gross profit (*see* p. 966 as to the meaning of gross profit) ; whereas, if the expenses exceed the gains, there has been a loss. This difference (called the balance) should be inserted on the lighter side of the account, and both sides (which will now agree in total) totalled up. The balance should be carried to the Profit and Loss Account—to the debit side if a loss, and to the credit side if a gain. The Profit and Loss Account is a nominal account ; it is in fact a summary of the nominal accounts in the Ledger, and the balances on those nominal accounts should now be transferred to the Profit and Loss Account. The difference on that account will then be the net profit (if the credit side is the heavier) or the net loss (if the debit side is the heavier). This balance should now be transferred to the Capital Account, and as that is a nominal account, the balance should be placed on the debit side if a loss, and on the credit side if a profit.

Balancing.

The only accounts now remaining open in the Ledger are the personal and real accounts and the Capital Account. These accounts should now be balanced, that is, the difference between the amounts of the two sides should be entered on the lighter side, the two sides totalled up, and the difference (i.e. the balance) carried down to the opposite side to start the new period. The object of balancing the accounts and bringing down the balances is to show the position of each account at the time of balancing. Naturally, there can be only debit balances on real accounts, because we cannot pay away more property than we receive, except in the case of the Cash Account, in which it is possible to have a credit balance when an overdraft is obtained from the bank. In the case of personal accounts, however, some may show debit balances and others credit balances. Here we must mention another very useful book-keeping rule, viz., debit balances on real and personal accounts are assets, and on nominal accounts losses ; credit balances on real accounts (Cash Account) and personal accounts are liabilities, and on nominal accounts gains.

The Balance Sheet.

The balances remaining in the Ledger are now scheduled in the Balance Sheet. The Balance Sheet is a list of the balances remaining in the Ledger after the nominal accounts are closed. It shows the financial position on the date named in the Balance Sheet, and whether a profit has been made during the accounting period. The Trading Account and Profit and Loss Account show how that profit or loss has been made.

Importance of the Ledger.

The chief book used in keeping accounts is the Ledger, which is the book to which we have

should be drawn from the bank and placed in the cash box. This amount is called the "imprest." The amount should be posted from the credit side of the Cash Book to the debit of "Petty Cash Account" in the Ledger. A Petty Cash Book should be opened, and the amount of the imprest entered on the debit side. As payments are made from the cash box, particulars should be entered on the credit side of the Petty Cash Book, which should be ruled with columns, one column for each class of expenditure, and a total column. At the end of the week the Petty Cash Book should be totalled up, and a cheque drawn for the total expenditure, the amount so drawn being placed in the cash box to replace the amount spent. When the cheque is drawn for the amount paid, the total of each column in the Petty Cash Book should be entered on the credit side of the Cash Book, these amounts being posted thence to the debit side of the corresponding Ledger accounts. The following is an example of a Petty Cash Book—

Dr.			PETTY CASH BOOK												Cr.							
Date.		Amount.		Particulars.	Ledger Accounts.			Postages and Telegrams.			Stationery.			Office Expenses.			Voucher No.	Total.				
19—		£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.		£	s.	d.		
Jan. 1		15	—	—	To Cash.																	
3					By Fares to Strand . .									6			231	6				
5					" String						1			6			232	6				
					" Stamps			10			—						233	10				
6					" Soap									6			234	6				
8					" Wages			3			—			—			235	3				
Account No. 473 . .					£3			—			—			1			—			£3 12 6		
Jan. 10					By Envelopes						3			6			236	3 6				

The entry on the credit side of the Cash Book would be as follows—

19—		£	s.	d.	£	s.	d.
Jan. 8	By Petty Cash—						
	Wages	3	—	—			
	Postages and telegrams . .		10	—			
	Stationery		1	6			
	Office expenses		1	—			
					3	12	6

The advantages of this system of petty cash are that: (1) the petty cash can easily be checked, since the cash in the box, plus the amount spent as shown by the Petty Cash Book, must always equal the amount of the imprest as shown by the Ledger; (2) the amount in the Ledger remains unchanged so long as the amount of the imprest remains unchanged; (3) the columnar method

saves the tedious work of analysing, and further enables the expenses accounts in the Ledger to be posted direct from the Cash Book.

A concern of any size will find it advisable to keep more than one Ledger, the number of and the uses to which the different ledgers are put depending on the size and conditions of the concern. The same principles, however, apply, no matter what number of ledgers is used.

A Worked Example.

The foregoing explanation of the principles of book-keeping will be understood better if the following transactions are followed through the various books to the final accounts, as the Profit and Loss Account and Balance Sheet are sometimes called—

Tom Jones commences business on 1st January with £1,000 in the bank, and goods of the value of £800, his capital thus being £1,800. He sold goods as follows: on 2nd January to R. Brown

£120; on 8th January to F. Smith £90; on 11th January to W. Wickers £100. He bought goods as follows: on 6th January from J. Small £80; on 9th January from M. White £60; on 10th January from R. Brown £150. He received the following amounts, which he paid into the bank on the dates on which he received them: on 15th January from F. Smith £85, allowing him £5 discount; on 29th January from W. Wickers £64. He paid the following amounts by cheque: on 16th January to J. Small £77, being allowed £3 discount; on 23rd to M. White £20; and on 31st January to R. Brown £29, being allowed £1 discount. He also paid on 31st January wages £25, and sundry expenses £10; and on that date he owed £15 for rent. On 31st January he drew out £20 for his personal expenses. His stock in hand on 31st January was £950. The foregoing transactions would appear in the books of Tom Jones as shown on the following pages.

CASH BOOK

Dr.

Cr.

		Led. Folio.	Discount.	Bank.			Led. Folio.	Discount.	Bank.
19— Jan. 1	To Balance . . .	J9	£ s. d.	£ s. d.	19— Jan. 16	By J. Small . . .	27	£ s. d.	£ s. d.
15	" F. Smith . . .	25	5 — —	1,000 — —	23	" M. White . . .	28	3 — —	77 — —
29	" W. Wickers . . .	26		85 — —	31	" R. Brown . . .	29	1 — —	20 — —
				64 — —		" Wages . . .	45		29 — —
						" Sundry Expenses . . .	47		25 — —
						" Drawings . . .	49		10 — —
									20 — —
						" Balance c/d . . .	24		181 — —
									968 — —
		Led. 50	£5 — —	£1,149 — —				£4 — —	£1,149 — —
Feb. 1	To Balance b/d . . .			968 — —			Led. 50		

SALES JOURNAL

19—		£	s.	d.	£	s.	d.
Jan. 1	<i>Sundries</i> Dr.						
	To Capital Account	22					
	„ Cash	24	1,000	—		1,800	—
	„ Stock	23	800	—			
	For opening entries on commencing business.						
31	<i>Rent A/c</i> Dr.	48	15	—			
	To Landlord	31				15	—
	For one month's rent due and unpaid on this date.						
	<i>Trading A/c</i> Dr.	71	800	—			
	To Stock	23				800	—
	For stock on hand 1st Jan., 19—, transferred.						
	<i>Trading A/c</i> Dr.	71	290	—			
	To Purchases A/c	32				290	—
	For purchases during month of Jan., 19—.						
	<i>Sales A/c</i> Dr.	33	310	—			
	To Trading A/c	71				310	—
	For sales during month of Jan., 19—.						
	<i>Stock A/c</i> Dr.	23	950	—			
	To Trading A/c	71				950	—
	For stock on hand, 31st Jan., 19—.						
	<i>Capital A/c</i> Dr.	22	20	—			
	To Drawings A/c	23				20	—
	<i>Trading A/c</i> Dr.	71	170	—			
	To Profit and Loss A/c	72				170	—
	For gross profit for month of Jan., 19—.						
	<i>Profit & Loss A/c</i> Dr.	72	170	—			
	To Sundries—						
	Wages A/c	45				25	—
	Rent A/c	48				15	—
	Sundry Expenses A/c	47				10	—
	Discount	50				1	—
	Capital A/c	22				119	—
	For transfer of balances.						

PURCHASES JOURNAL

		Led. Folio.	£	s.	d.
19—					
Jan. 6	J. Small—Goods	27	80	—	—
9	M. White—Goods	28	60	—	—
10	R. Brown—Goods	45	150	—	—
		32	£290	—	—

		Led. Folio.	£	s.	d.
19—					
Jan. 2	R. Brown—Goods	45	120	—	—
8	F. Smith—Goods	25	90	—	—
11	W. Wickers—Goods	26	100	—	—
		33	£310	—	—

LEDGER

Dr.

CAPITAL ACCOUNT

Cr.

19— Jan. 31	To Drawings „ Balance .	J10 c/d	£ 20 1899	19— Jan. 1	By Sundries .	J9	£ 1800
				31	„ Profit and Loss A/c, Net Pro- fit 10r 10r of Jan. .	J10	119
			£ 1919				£ 1919
				Feb. 1	By Balance .	b/d	1899

DRAWINGS ACCOUNT

19— Jan. 31	To Cash	C.B. 81	£20	19— Jan. 31	By Capital A/c	J10	£20
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CASH ACCOUNT

19— Jan. 1	To Capital A/c . . .	J9	£ 1000	19— Jan. 31	By Sundry Pay- ments as per Cash Book . . .	C.B. 81	181
31	" Sundry Receipts as per Cash Bk.	C.B. 81	149		" Balance .	c/d	968
			£ 1149				£ 1149
Feb. 1	To Balance .	b/d	968				

LEDGER—(contd.)

Dr. STOCK ACCOUNT				Cr.			
19— Jan. 1	To Capital A/c	J9	800	19— Jan. 31	By Trading A/c	J9	800
31	" Trading A/c	"	950		" Balance	c/d	950
			<u>1750</u>				<u>1750</u>
Feb. 1	To Balance	b/d	950				

PURCHASES ACCOUNT

19— Jan. 31	To Sundries as per Purchses Journal	P.J. 62	£290	19—	By Trading A/c	J9	£290
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SALES ACCOUNT

19— Jan. 31	To Trading A/c	J9	£310	19— Jan. 31	By Sundries as per Sales Journal	S.J. 42	£310
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DISCOUNT ACCOUNT

19— Jan. 31	To Cash	C.B. 81	£5	19— Jan. 31	By Cash	C.B. 81	£4
			<u>£5</u>		" Profit and Loss A/c	J10	1
							<u>£5</u>

WAGES ACCOUNT

19— Jan. 31	To Cash	C.B. 81	£25	19— Jan. 31	By Profit and Loss A/c	J10	£25
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SUNDRY EXPENSES ACCOUNT

19— Jan. 31	To Cash	C.B. 81	£10	19— Jan. 31	By Profit and Loss A/c	J10	£10
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RENT ACCOUNT

19— Jan. 31	To Landlord	J9	£15	19— Jan. 31	By Profit and Loss A/c	J10	£15
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F. SMITH

19— Jan. 8	To Goods	S.J. 42	£90	19— Jan. 15	By Cash	C.B. 81	£85
			<u>£90</u>		" Discount	"	5
							<u>£90</u>

W. WICKERS

19— Jan. 11	To Goods	S.J. 42	£100	19— Jan. 29	By Cash	C.B. 81	£64
			<u>£100</u>	31	" Balance	c/d	36
Feb. 1	To Balance	b/d	36				<u>£100</u>

Dr. J. SMALL				Cr.			
19— Jan. 16	To Cash	C.B. 81	£77	19— Jan. 6	By Goods	P.J. 62	£80
	" Discount	"	3				<u>£80</u>
			<u>£80</u>				

M. WHITE

19— Jan. 23	To Cash	C.B. 81	£20	19— Jan. 9	By Goods	P.J. 62	£60
31	" Balance	c/d	40				<u>£60</u>
			<u>£60</u>	Feb. 1	By Balance	b/d	40

R. BROWN

19— Jan. 2	To Goods	S.J. 42	£120	19— Jan. 10	By Goods	P.J. 62	£150
31	" Cash	C.B. 81	29				<u>£150</u>
	" Discount	"	1				<u>£150</u>
			<u>£150</u>				

LANDLORD

19— Jan. 31	By Rent	J9	£15
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TRADING ACCOUNT

Dr. FOR MONTH OF JANUARY, 19—				Cr.			
To Stock on 1st Jan., 19—		£	800	By Sales		£	310
" Purchases		290		" Stock on 31st Jan., 19—			950
" Balance—gross profit carried to Profit and Loss A/c		170					<u>950</u>
		<u>£1,260</u>					<u>£1,260</u>

PROFIT AND LOSS ACCOUNT

Dr. FOR MONTH OF JANUARY, 19—				Cr.			
To Wages		£	25	By Gross Profit from Trading A/c		£	170
" Rent		15					
" Sundry Expenses		10					
" Discount		1					
" Balance—net profit carried to Balance Sheet		119					
		<u>£170</u>					<u>£170</u>

Dr. BALANCE SHEET—31st JANUARY, 19—				Cr.			
Sundry Creditors—		£		W. Wickers		£	36
M. White		40		Stock on hand		950	
Landlord		15		Cash at Bank		968	
		55					
Capital A/c—							
Balance 1st Jan., 19—	1,800						
Add profit for month of Jan., 19—	119						
	1,919						
Less Drawings	20						
		<u>£1,954</u>					<u>£1,954</u>

Closing Entries—Trial Balance.

Closing entries are those made at balancing time, when the accounts have to be closed to show the financial position. They are made by means of the journal. Examples of closing entries can be seen on p. 971.

After all the transactions have been posted in the Ledger, but before the closing entries have been made, it is wise to test the correctness of the postings. As previously explained, as each debit has a corresponding credit, the total of the debits should equal the total of the credits, provided the postings have been correctly made. Accordingly the total of the debit balances should equal the total of the credit balances. The correctness of the postings is tested by taking out a trial balance, that is, a list of all the Ledger balances. The following is a trial balance of the exercise given on p. 970 before the closing entries were made—

TOM JONES—TRIAL BALANCE

Fo.		Debit Balances.			Credit Balances.		
		£	s.	d.	£	s.	d.
22	Capital Account				1,800		
23	Drawings Account	20	—	—			
24	Cash Account	968	—	—			
25	Stock Account	800	—	—			
32	Purchases Account	290	—	—			
33	Sales Account				310		
50	Discount Account	1	—	—			
45	Wages Account	25	—	—			
47	Sundry Expenses Account	10	—	—			
48	Rent Account	15	—	—			
26	W. Wickers	36	—	—			
28	M. White				40		
31	Landlord				15		
		£2,165			£2,165		

If the trial balance does not agree it is evidence that a mistake has been made either in the postings, or in the cast, or in the amounts carried forward, or in taking out the balances. On the other hand, a trial balance will not disclose errors of all kinds, but only errors that result from an amount being posted to the wrong side of the Ledger or the omission of an amount from one side of the Ledger. It will not discover an amount posted to the wrong Ledger *account* if the amount has been posted to the correct *side* of the Ledger. The trial balance is an extremely valuable book-keeping expedient, and the closing entries should never be made until the work previously done has been tested by means of the trial balance.

After the trial balance has been agreed, the closing entries should be made. The balances on the Stock Account and Purchases Account in the Nominal Ledger should be transferred to the debit of Trading Account, and the balance on Sales Account to the credit of Trading Account. Stock must be taken and the value debited to Stock Account in the Nominal Ledger, and credited to Trading Account. The balance on the Trading

Account will now represent the gross profit if a credit balance, and the gross loss if a debit balance, and should be carried to the opposite side of the Profit and Loss Account. The balances of all the nominal accounts outstanding in the Nominal Ledger should now be transferred to the Profit and Loss Account, debit balances (representing losses) to the debit side of the Profit and Loss Account, and credit balances (representing gains or profits) to the credit side. The balance on the Profit and Loss Account will represent net profit, if a credit balance, and net loss if a debit balance.

The balance on the Profit and Loss Account and the balance on Drawings Account should now be transferred to Capital Account. The balances now standing on the Ledger accounts remaining (after closing the nominal accounts) should be set out in the form of a Balance Sheet, the credit balances being placed on the left-hand side of the Balance Sheet, and the debit balances on the right-hand side.

It will be seen that drawings are not transferred to Profit and Loss Account, but direct to the debit of Capital Account. The reason for this is that drawings are not expenses of the business, but consist of amounts drawn out of the bank and used for purposes outside the business; in other words, drawings are capital withdrawn from the business.

Reserves.

Generally speaking it will be found that the entries actually in the books at balancing time do not show the financial position accurately. Perhaps there are some debts owing to the concern and some owing by it that have not reached a sufficiently advanced stage to justify invoices being received or issued. Thus, if on closing the books on 31st December a quarter's rent were owing, obviously a Profit and Loss Account that did not make provision for that rent as an expense, and a Balance Sheet that did not show it as a liability, would not correctly show the financial position. Outstanding items of that nature therefore should be estimated as nearly as possible, and brought into the books by means of journal entries.

Let us assume that a trader rents premises from W. Jones, the landlord, for £200 a year, the rent being payable on the usual quarter days. He has paid the rent on 25th March, 24th June, and 29th September, but did not pay the Christmas quarter's rent until 2nd January of the next year, two days after he closed his books for the year on 31st December. On 31st December he would make the following journal entry—

19— Dec. 31	Rent Account To W. Jones For rent for Christmas quarter due but unpaid at this date.	Dr.	£ 50	£ 50
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The following accounts show how the rent entries would appear in the Cash Book and Ledger—

Dr.	CASH BOOK	Cr.
	19— Mar. 25 By Rent A/c . . . June 24 Do. . . . Sept. 29 Do. . . .	£ 50 50 50

LEDGER

RENT ACCOUNT

19— Mar. 25 To Cash . . . June 24 Do. . . . Sept. 29 Do. . . . Dec. 31 W. Jones . . .	£ 50 50 50 50	19— Dec. 31 By Profit and Loss A/c	£ 200
	£200		£200

W. JONES

19— Dec. 31	By Rent A/c . . .	£50
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PROFIT AND LOSS ACCOUNT

19— Dec. 31	To Rent . . .	£200
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BALANCE SHEET

31ST DECEMBER, 19—

<i>Liabilities.</i> W. Jones—amount owing to him for rent for Christmas quarter	£50
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It will be seen that although the quarter's rent has not been paid at the time of closing the books, we are able by means of the journal entry to charge the full year's rent in the Profit and Loss Account, and in so doing we must show the liability of £50 in the Balance Sheet. When the £50 is actually paid on 2nd January it will be entered on the credit side of the Cash Book and on the debit side of W. Jones's Account, thus closing the latter. Similar procedure should be followed with other items outstanding at balancing time.

This is known as making reserves, that is, reserving some of the profits to provide for the payment of liabilities that have accrued due but which have not been paid. If these necessary reserves were not made, the profit would be overstated, and we might spend that profit, and when the amount had to be paid find ourselves without the necessary funds. It is therefore of the utmost importance that all necessary reserves should be made at balancing time. On the other hand, if an amount has been paid in advance, such as an insurance premium, we should be justified in making entries of the reverse kind so as to reduce the amount chargeable in the period for which the

books are being closed, and carrying down the proportion attributable to the following period, so that it can be charged against that period.

Depreciation.

An important reserve is that to provide for depreciation. Depreciation is the diminishing of the value of an asset—a loss that occurs, usually through wear and tear, in such a way that the loss cannot be made good by repairs. Provision should be made for it by debiting Profit and Loss Account (through Depreciation Account) and crediting the asset account with the amount that is considered sufficient to provide for the loss. Where premises are held on lease for which a premium has been paid, the value of the lease (the price paid for it) will be entered in the books as an asset. The value of that asset will diminish year by year until, at the expiration of the lease, the value will be zero, and the asset must be written off the books entirely. Writing off the lease means, naturally, finding money to buy a fresh one, and a concern might be crippled if it had to find a large sum of money at short notice. To provide for this, it is usual to write off a sufficient part of the value of the lease each year so that the full amount will be written off by the time the lease expires. The effect of writing off a yearly amount is to reserve that amount out of the profits, so that when the lease expires the amount originally spent on the lease will have been reserved and will be available to buy a new one. The journal entry to provide for depreciation should be in the following form—

19— Dec. 31	Depreciation A/c To Lease A/c	Dr. £ 50	£ 50
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The balance on Depreciation Account would be transferred to the debit of Profit and Loss Account. The Lease Account in the Ledger would appear as follows for the first year, assuming that the lease had been bought for £1,000 on 1st January, and that it had been decided to write off £50 a year—

Dr.		LEASE ACCOUNT		Cr.	
19— Jan. 1	To Cash	£1,000	19— Dec. 31	By Depreciation	£50
				„ Balance carried down	950
		<u>£1,000</u>			<u>£1,000</u>
19— Jan. 1	To Balance brought down	950			

A further £50 would be written off for succeeding years until at the expiration of the lease the whole amount would have been written off.

Opening Entries.

If it is required to open books for a business that is already in existence, a schedule of the assets and liabilities should be drawn up and an account opened in the Ledger for each asset and for each liability, the assets being entered on the debit side in the Ledger, and the liabilities on the credit side. The excess of the total assets over the total liabilities will represent the capital, and a Capital Account should be opened in the Ledger and the amount of the capital entered on the credit side of that account.

Bills of Exchange.

A bill of exchange is defined by the Bills of Exchange Act, 1882, as "an unconditional order in writing addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand or at a fixed or determinable future time a sum certain in money to or to the order of a specified person or to bearer." For practical purposes we might define it in more simple language as "a document by which one person orders another to pay at a fixed certain date a stated sum of money." The person who is required to pay writes his name on the face of the bill (i.e. he accepts it) and he then becomes liable under it as the acceptor. If the acceptor is unable to pay, the drawer of the bill becomes liable to pay it, and if the drawer is unable to pay, any of the endorsers can be made to pay. The endorser is the person to whom the bill is payable and he can, by endorsing it, negotiate the bill to another person.

The following is a form of bill of exchange—

£150	London,
Stamp	21st April, 19—
2s.	
Three months after date pay to my order the sum of One Hundred and Fifty Pounds.	
Y. ORBITT.	
To Mr. B. O. Feary,	
Manchester.	

A bill of exchange must be stamped, the stamp duty being *ad valorem*, i.e. according to the amount of the bill, unless the bill is payable on demand or within three days after date, when the stamp duty is 2d., whatever the amount. A bill of exchange is often called a "draft," but strictly speaking that name can only be applied correctly to a bill before it is accepted.

A promissory note is defined by the Bills of Exchange Act, 1882, as "an unconditional promise in writing made by one person to another signed by the maker engaging to pay on demand or at a fixed or determinable future time a sum certain in money to or to the order of a specified person or to bearer." The chief difference between a bill of exchange and a promissory note is that there are three parties to a bill of exchange, which

requires to be accepted, whereas there are only two parties to a promissory note, which does not require to be accepted. The stamp duty on a promissory note is the same as that on a bill of exchange, except that on a promissory note it is always *ad valorem*, whether the note is payable on demand or otherwise. Three days' grace are allowed for payment of a bill or promissory note, that is, a bill or note is actually payable three days after its due date.

Treatment of Bills in Book-keeping.

For book-keeping purposes bills of exchange and promissory notes should be treated alike.

Bills Receivable.

A bill receivable is one held by a person who is entitled to receive the amount of it at the due date, i.e. the date mentioned in the bill as the date when payment will be made. If there are a large number of transactions in bills a special journal should be used. If the transactions are few they can be put through the ordinary journal. A form of special bills journal will be found on p. 977.

As bills are received, particulars of them should be entered in the Bills Receivable Journal. The amount of each bill should be posted in the Ledger to the credit of the account of the person from whom the bill was received. Periodically the amount column in the Bills Receivable Journal should be totalled up, and the total posted to the debit of Bills Receivable Account in the Ledger. The bills should be lodged with the banker who will present them for payment on the due dates, and advise his customer as the amounts are received. The amounts so received should be entered on the debit side of the Cash Book and posted thence to the credit of Bills Receivable Account in the Ledger. A debit balance on the Bills Receivable Account represents an asset.

Sometimes, instead of waiting until a bill matures, i.e. until the due date of the bill, the holder may discount it; that is, he will sell the bill to his banker, who will give the holder cash for the face value of the bill, less a charge which is called discount. When a bill is discounted, the full amount of the bill should be entered as a receipt on the debit side of the Cash Book, and the amount of the discount should be entered on the credit side as a payment. The amount of the bill on the debit side of the Cash Book should be posted to the credit of Bills Receivable Account and the amount of the discount on the credit side of the Cash Book should be posted to the debit of Bank Charges Account.

If a bill is not met (i.e. not paid on the due date) it is said to be dishonoured, and in such a case the entries already made regarding that bill must be annulled. If the bill has not been discounted, a journal entry will be made debiting the person from whom the bill was received and crediting

Bills Receivable Account. If the bill has been discounted and is afterwards dishonoured, the banker will debit the holder's account with the amount of the bill. In that case the amount of the bill must be entered on the credit side of the Cash Book (representing repayment to the banker of the amount he advanced when discounting the bill, plus the discount), and that amount posted to the debit of the account of the person from whom the bill was received. When a bill is dishonoured certain charges are usually incurred. These charges should be debited to the account of the person who dishonours the bill.

Bills Payable.

A Bill Payable is one accepted, the amount of which has to be paid on the due date. As bills are accepted particulars should be entered in a Bills Payable Journal, an example of which is given on p. 977. Each individual item in the Bills Payable Journal should be posted from the Bills Payable Journal to the debit of the account of the person to whom the bill is given. Periodically the Bills Payable Journal should be totalled up and the total posted to the credit of Bills Payable Account in the Ledger. As a bill is paid the amount should be entered on the credit side of the Cash Book and posted thence to the debit side of the Bills Payable Account in the Ledger.

The following illustration will explain further the treatment of bills in book-keeping—

19— April 1	Received the following Bills Receivable dated this day, in settlement of balances due on 31st March— From Jones & Co. Acceptance at one month for £200 payable at Barclays Bank, Queen Victoria Street. Smith & Co.'s Acceptance at two months for £150 payable at the Westminster Bank, Finsbury; discounted this, receiving £145.
2	Accepted Brown & Co.'s draft for £100 at one month in settlement of balance due to them at 31st March.
May 4	Jones & Co.'s Acceptance honoured.
June 4	Smith & Co.'s Acceptance dishonoured; paid expenses £6.
5	Honoured Acceptance of £100.

Dr.	CASH BOOK	Cr.
19— April 1	To Bill Receivable No. 51, discounted . . . 24 150	19— April 1 By Bank Charges —Discount on Bill No. 51 . . . 91 5
May 4	„ Bill Receivable No. 50 . . . 24 200	June 4 „ Smith & Co. —Bill No. 51 dishonoured . . . 40 150
		„ Smith & Co. Expenses . . . 40 6
		5 „ Bill Payable, No. 64 . . . 28 100
		Balance . . . c/d 89 261
	92 £350	£350
June 6	To Balance . . . b/d 89	

LEDGER

Dr.	BILLS RECEIVABLE ACCOUNT	Cr.
19— April 1	To Sundries as per Bills Receivable Book 36 350	19— April 1 By Cash . . . 19 150
		May 4 „ „ . . . 19 200
	£350	£350

Dr.	BILLS PAYABLE ACCOUNT	Cr.
19— June 5	To Cash . . . 19 100	19— April 2 By Sundries as per Bills Payable Book . . . 27 100

Dr.	JONES & CO.	Cr.
19— Mar 31	To Balance . . . b/d 200	19— April 1 By Bill Receivable, No. 50 . . . 36 200

Dr.	SMITH & CO.	Cr.
19— Mar 31	To Balance . . . b/d 150	19— April 1 By Bill Receivable, No. 51 . . . 36 150
June 4	„ Cash — Bill No. 51 dishonoured . . . 19 150	June 4 „ Balance . . . c/d 156
	„ do. Expenses . . . 19 6	
	£306	£306
June 5	To Balance . . . b/d 156	

Dr.	BROWN & CO.	Cr.
19— April 2	To Bill Payable, No. 64 . . . 27 100	19— Mar 31 By Balance . . . b/d 100

Dr.	BANK CHARGES ACCOUNT	Cr.
19— April 1	To Cash . . . 19 5	

Dr.	BANK ACCOUNT	Cr.
19— May 4	To Sundry Receipts as per Cash Book . . . 19 350	19— June 4 By Sundry Payments as per Cash Book . . . 19 261
		„ Balance . . . c/d 89
	£350	£350
June 5	To Balance . . . b/d 89	

BILLS RECEIVABLE BOOK

No.	Date received.	Acceptor.	Drawer.	Received from.	Payable at.	Date of Bill.	Term.	Date due.	Ledger Fo.	Amount.	Remarks.
50	19— April 1	Jones & Co.	Self	Jones & Co.	Barclays Bank, Queen Victoria Street	19—		19—		£ s. d.	
51	" 1	Smith & Co.	"	Smith & Co.	Westminster Bank, Finsbury	April 1	1 month	May 4	35	200	— — Honoured.
						" 1	2 months	June 4	40	150	— — Discounted, Afterwards dishonoured. Expenses £6.
									10	£350	— —

BILLS PAYABLE BOOK

No.	Date given.	Drawer.	Given to.	Payable at.	Date of Bill.	Term.	Date due.	Ledger Fo.	Amount.	Remarks.
64	19— April 2	Brown & Co.	Brown & Co.	Barclays Bank Stock Exchange	19— April 2	1 month	19— May 5	71	100	— — Honoured.
								15	£100	— —

CHAPTER II

BOOK-KEEPING FOR MANUFACTURERS

THE wholesaler and the retailer are traders ; they buy and sell goods and they sell them in the same form as that in which they buy them. In other words they are distributors. The manufacturer on the other hand not only buys and sells, but manufactures also. He buys goods in the raw state, alters the form of the goods by manufacturing processes, and then sells them in their altered form. Consequently, while the book-keeping of wholesalers and retailers has to be modelled to deal with buying and selling, the manufacturer's book-keeping must be framed to deal with those transactions, and in addition with the transactions incidental to manufacturing. While cost is equally important to the wholesaler, retailer, and manufacturer, to the last-named it is a much more complicated matter ; consequently he must, in the lay-out of his book-keeping system, devote more attention to the recording of cost than the wholesaler and retailer need do.

The book-keeping of a manufacturer should be organized under two heads, namely : (1) Cost Accounting, and (2) Financial Accounting. The cost accounting, as the name indicates, should show in sufficient detail the cost of the work he has set out to do. The financial books should

show as accurately as possible the financial position of the concern : debtors and creditors and the other assets and liabilities, and the summarized results of the manufacturing and its effect on the financial position of the concern. There should be a liaison between the costing books and the financial books, with the two-fold object of providing for the transfer to the financial books of a summary of the details given in the costing books, and also to provide a check on the costing books. It will be seen in the following pages how the necessary connection between the two sets of books is secured.

Cost Accounting.

A good cost accounting system enables a manufacturer to fix a profitable selling price, to make tenders for contracts, to see whether he is buying wisely, and to watch each cog in the machinery of his business, so that if any cog slips he can adjust it. In other words, he can remedy any error before it has had time to develop seriously. To enable a manufacturer to use his cost accounting system in this way, the system must be framed to record the transactions contemporaneously almost with their happening, so that he can at once adjust his cost to fit his selling price, or on the other hand adjust his selling price to cover his cost. The details of the costing should be recorded in a separate set of books, only a summary being entered in the financial books.

The manufacturer must know what it costs him to manufacture and what it costs him to sell. The cost of manufacturing will be made up of: (1) the amount spent on buying raw materials; (2) the amount spent on wages to convert the raw materials into the finished article; (3) the amount spent on direct charges, i.e. General Charges that can be earmarked and charged against any particular stage of the manufacture or against any particular job or contract, such as travelling expenses on a certain contract; and (4) the amount spent on Indirect Charges, i.e. general charges that, while attributable to the cost of manufacture, cannot be charged against any particular stage or contract, such as rent of and superintendence in the factory. The total of (1), (2), and (3) is known as prime cost; (4) is called factory oncost; and the total of prime cost and factory oncost is the total factory or manufacturing cost. The cost of selling may be said to comprise travellers' salaries and commission, advertising, carriage, warehouse and office rent and salaries, and the general expenses of the concern. The total of these is known as selling oncost; and that total added to the total factory or manufacturing cost, represents the total cost, which, added in turn to the profit, gives the selling price.

The lay-out of the cost accounting in a manufacturing business will depend on the nature of the business. Thus a business engaged in manufacturing a special line, say bicycles, would frame its costing on different lines from those of a concern undertaking specific contracts, such as a builder. The bicycle-making concern would require to know the cost of each process and, of course, the total cost of the bicycle, and would keep what is known as process cost accounts; whereas the builder would want to know the cost of each contract, and would keep contract or job cost accounts. In some cases it would be necessary to ascertain both the cost of each process and article and the cost of a contract, in which case there would have to be a composite system of cost accounting. The class of business that most clearly illustrates the application of cost accounting is perhaps that of a contractor, and we will therefore base our illustration on that class of business.

Quotations and Contracts.

As quotations are made particulars should be entered in a Quotation and Contracts Book, in which should be added particulars of any contracts received. This book might be framed on the lines as shown in the next column, a separate sheet being used for each quotation.

Materials.

As invoices are received they should first be numbered consecutively, checked, and compared

QUOTATION AND CONTRACT BOOK

Name _____	Address _____
Particulars and terms of Contract _____	
Quotation. £ s. d.	
Date of Contract _____	Materials _____
Quantity _____	Cost of delivery, including freight, etc. _____
Price quoted per (ton) _____	Wages _____
Total value _____	Direct Charges _____
Contract Ledger Folio _____	Factory Oncost _____
Contract No. _____	Selling Oncost _____
Total Cost . . . £	
Add Profit . . . £	
Total value of contract £ as above. _____	

CONSIGNMENTS DELIVERED.				Date in- voiced.	Invoice No.	Remarks.
Date.	Particulars.	Qu'ty.	Value.			

with the orders or advice notes, and entered in the Purchases Journal. The invoices should be placed in numerical order on a file marked "Unpaid Invoices Inwards." Trade discounts should be deducted before the invoices are entered in the Purchases Journal. It is essential that the invoices should be numbered *immediately* they are received. They thus have a mark of identification, and a gap in the numbers indicates that an invoice is missing, a fact that might not be ascertainable if the invoices were not numbered immediately on receipt. If an invoice is taken temporarily from the file a note should be put in its place stating where the invoice has gone. It is a good plan to impress each invoice when it is received with an india-rubber stamp as follows—

Date received _____	No. _____
Checked by _____	
Charge to _____	
Entered: Folio _____	
Paid: Date _____	Cheque No. _____

A suitable form of Purchases Journal is shown on the opposite page.

The consecutive number and total amount of each invoice should be entered in the Purchases Journal, and the amount extended to the appropriate columns for analysis. Where the goods are bought specially for use on a particular job or contract, the amount should be extended into the "Direct Purchases" column, and posted therefrom to the debit of the job account in the Cost Ledger, and the total of the column should be posted to the credit of "Direct Purchases Account" in the same Ledger. This will give the double entry in the Cost Account, so that at any time a trial balance can be taken of the Cost Ledger to test its arithmetical accuracy. Where goods are bought to take into store, the particulars should be extended into the "Stores Purchases"

[illegible]

The Purchases Journal must then be posted in the ordinary financial ledgers as follows: each individual item to the credit of the personal accounts of the sellers, and the total of Direct Purchases column to the debit of Direct Purchases

Wages.

The total of each column in the Wages Analysis Journal should be posted to the debit of the corresponding job in the Cost Ledger, and the total of the summary to the credit side of Direct Wages Account in the same Ledger. In the ordinary financial ledgers the total shown in the Wages Book should be debited to Wages Account and credited to "Cash Account." Great care should be exercised in connection with wages, as in no other direction is there more opportunity for fraud. The making up of the wages sheets and the paying of the wages should never in any

WEEK ENDING _____ 19__

[illegible]

WEEK ENDING _____ 19__

[illegible]

circumstances be left to one person ; the different stages should be dealt with by as many persons as possible, and special precautions should be taken to prevent collusion. If there is any truth in the saying "safety in numbers," it is in connection with wages.

Direct Charges.

These can be dealt with best by entering the charges from the Cash Book into a "Direct Charges Analysis Journal" on similar lines to those on which materials and wages are dealt with. The total of each column should be posted to the debit of the appropriate job in the Cost Ledger, and the total of the summary to the credit of Direct Charges Account in the same Ledger. In the ordinary financial ledgers the total of the Direct Charges Analysis Journal should be debited to Direct Charges Account and credited to Cash Account.

It will be seen that we have thus far recorded against each contract the expenditure in respect of materials, wages, and direct charges. The amount under each of these headings is definitely known and can be charged direct to the particular contract concerned.

Indirect Charges.

We have now to deal with the factory indirect charges or oncost. It has been pointed out that these are of such a nature that they cannot be charged against any particular contract ; nevertheless each contract must be charged with its proportion of these indirect charges, and that proportion is ascertained by a method of apportionment. There are various methods of apportionment. One method is to charge the oncost to each job in the proportion that the number of labour hours spent on the job bears to the total number of labour hours for the period. For example—

1. Number of labour hours spent on the job	1,250
2. Total number of labour hours for the month	25,000
3. Total amount of factory oncost for the month	£1,500

As (1) represents 5 per cent of (2) the amount of oncost to be charged against the job in the case in point will be 5 per cent of £1,500 (3), namely £75. This is known as the "Productive Hour" plan, and is satisfactory where the rates of pay are fairly equal, but it does not take into account large variations in wage rates.

Another method is to charge each job with the proportion of the amount of wages paid for the particular job that the total amount of oncost for the period bears to the total amount of wages paid for the same period. Thus—

1. Amount of wages paid on the job	£250
2. Total amount of wages paid during the month	2,000
3. Total amount of oncost for the month	1,500

As (3) is 75 per cent of (2), the amount of oncost to be charged against the job is £187 10s., namely 75 per cent of (1). This method is known as the "Percentages of Wages" plan and is more suitable where the wage rates vary considerably.

The method for apportioning the factory oncost having been decided, the materials, wages, and direct charges columns in each job account in the Cost Ledger should be added up. The resulting total represents the prime cost, and should be carried into the prime cost column. An entry should be made in the Cost Journal debiting each job with its proportion of factory oncost and crediting "Factory Oncost Account" with the total oncost. These journal entries should be posted to the Cost Ledger. The total of the prime cost and factory oncost columns will show the total factory cost for the job, which should be extended into the factory cost column.

Selling Oncost.

We have now ascertained the total factory cost of each job, and there remains now to find how much of the total selling cost is to be charged against each job. It is not possible to charge any of these costs against any particular job, so we must have resort again to a method of apportionment as in the case of factory oncost. Probably the best and simplest method of apportionment of selling oncost is to ascertain the percentage of the total selling oncost of the total factory cost, and then charge each job with that percentage. Thus—

1. Total selling oncost for the month	£200
2. Total factory oncost for the month	2,000

£200 is 10 per cent of £2,000 ; therefore the proportion of the £200 to be charged against each job is 10 per cent.

The total of the factory cost and selling oncost columns should then be extended into the total cost column, the resulting total representing the gross cost of the job.

Both factory and selling oncost should be charged in this way on completed jobs only. A charge should be made in the accounts for oncost on unfinished jobs (work in progress), but the charge should not be brought into the job account until the job is finished ; if balancing time comes round before that happens, the factory oncost and selling oncost on all the work in progress should be calculated, and an entry made in the Cost Journal debiting the amount to Factory Oncost Suspense Account and Selling Oncost Suspense Account respectively, the corresponding credit entries being made in the Factory Oncost Account and Selling Oncost Account. When the jobs are completed the usual entries will be made debiting the job with the total amount of oncost and crediting Oncost Accounts. This will leave debit balances on the Oncost Suspense Accounts and excess

credits of the same amount in the Oncost Accounts. These balances will be adjusted by a journal entry debiting Oncost Account and crediting Oncost Suspense Account. In the ordinary financial ledger, the nominal accounts will contain the equivalent of the Oncost Accounts in the Cost Ledgers, and those nominal accounts, if totalled up, should agree with the amount of the Oncost Accounts in the Cost Ledger.

On the other side of the Cost Ledger we now have to deal with the contract price for each job. When the job is completed the job account in the Cost Ledger should be credited with the contract price, and Completed Contracts Account in the same Ledger debited. This entry should be made through the Cost Journal, in which also an entry should be made transferring the balance from the job account to Contract Profit and Loss Account in the Cost Ledger. In the ordinary financial ledgers, the customers' personal accounts should be debited with the contract price, and Completed Contracts Account credited, the latter being in due course transferred to the credit of Trading Account.

Where a contract is uncompleted at balancing time, the expenditure on such contract should be credited to Trading Account in the same way as stock in hand is credited. The expenditure to the date of balancing can be ascertained from the Job Account in the Cost Ledger, and the following

entry should be made in the ordinary Financial Journal and posted to the Financial Ledger—

Work in progress

Dr.

To Trading Account.

At the next balancing time the amount will be debited to the Trading Account in the same way as stock in hand at the beginning of a trading period is debited.

Some General Remarks on Cost Accounting.

1. It is waste of time compiling cost accounts if they are not promptly and fully used.

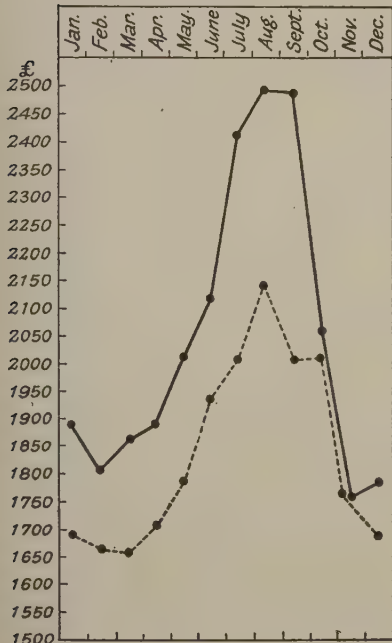
2. Cost accounts cannot be promptly and fully used unless they are frequently focused and presented in a brief and easily assimilated form.

3. This focus is secured by means of a cost statement prepared daily, weekly, or monthly, according to the needs of the business. An isolated cost figure is not of much use: it must be presented parallel with the figures for a corresponding previous period or for a similar purpose.

4. For comparison purposes, cost units must be worked out; but cost units presented by themselves are apt to be dangerous; they should be accompanied by totals and averages.

5. Charts or graphs are valuable auxiliaries to cost statements. Below is a reproduction of a chart presented weekly to the directors of a motor garage.

X Y Z MOTORS, LTD.
MONTHLY REVENUE CHART.—19..



Month.	INCOME.			Approximate Expenditure. ¹	RESULT. ²	
	Sales, Repairs, etc.	Hire and Garage.	Total.		Per month.	To date.
Jan.	£ 1,324	£ 566	£ 1,890	£ 1,692	£ 198	£ 198
Feb.	1,310	505	1,815	1,673	142	340
Mar.	1,287	589	1,876	1,654	222	562
Apr.	1,304	585	1,889	1,703	186	748
May	1,342	684	2,026	1,792	234	982
June	1,351	779	2,130	1,940	190	1,172
July	1,394	1,031	2,425	2,015	410	1,582
Aug.	1,418	1,078	2,496	2,142	354	1,936
Sept.	1,426	1,064	2,490	2,003	487	2,423
Oct.	1,434	638	2,072	2,016	56	2,479
Nov.	1,293	468	1,761	1,770	— 9	2,470
Dec.	1,298	485	1,783	1,689	94	2,564
£	16,181	8,472	24,653	22,089	2,564	2,564

¹ Including approximate allowance for all expenses, such as income tax and other taxes, depreciation; also for stock on hand.

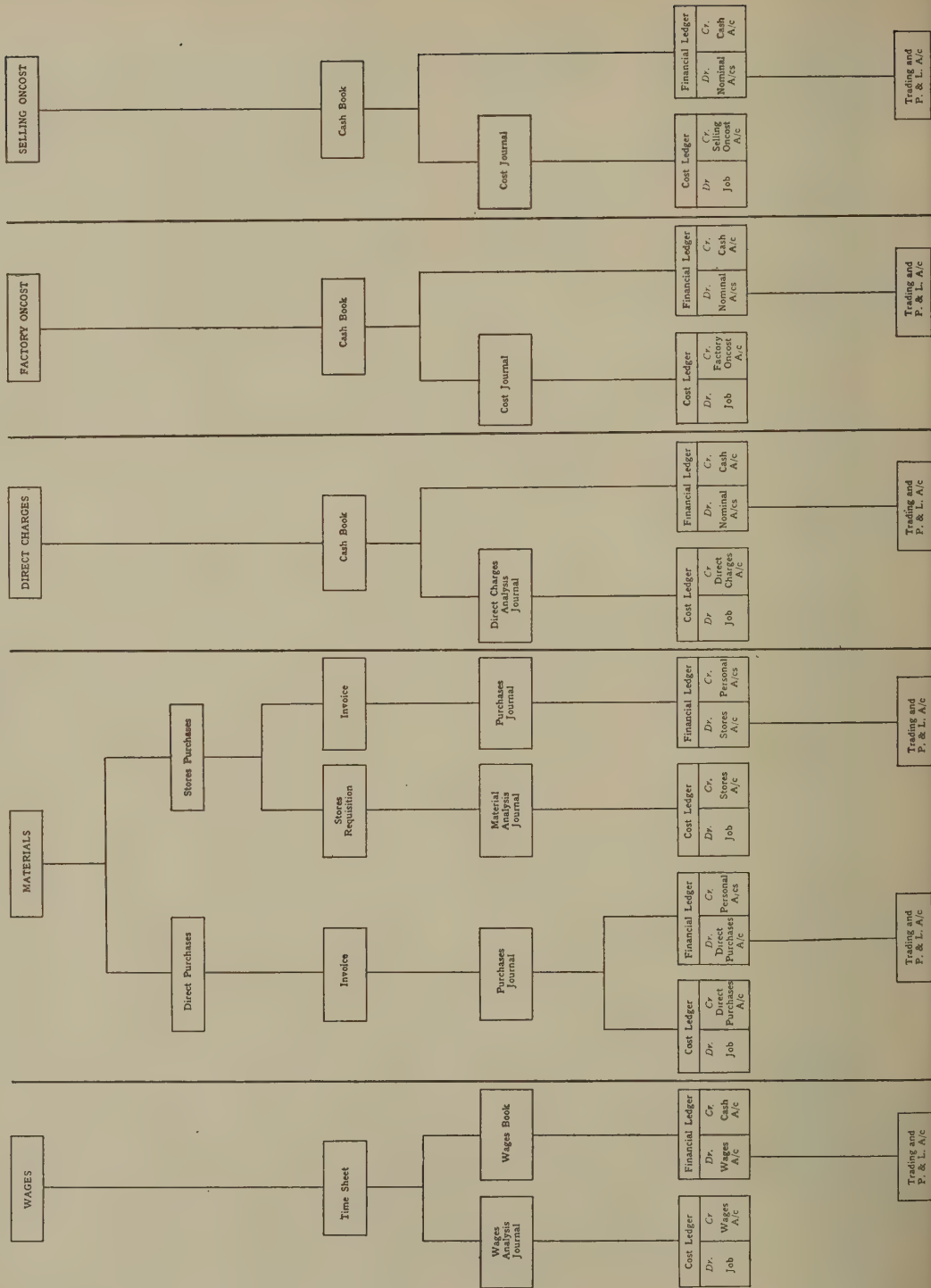
² — indicates loss; otherwise this column shows a profit.

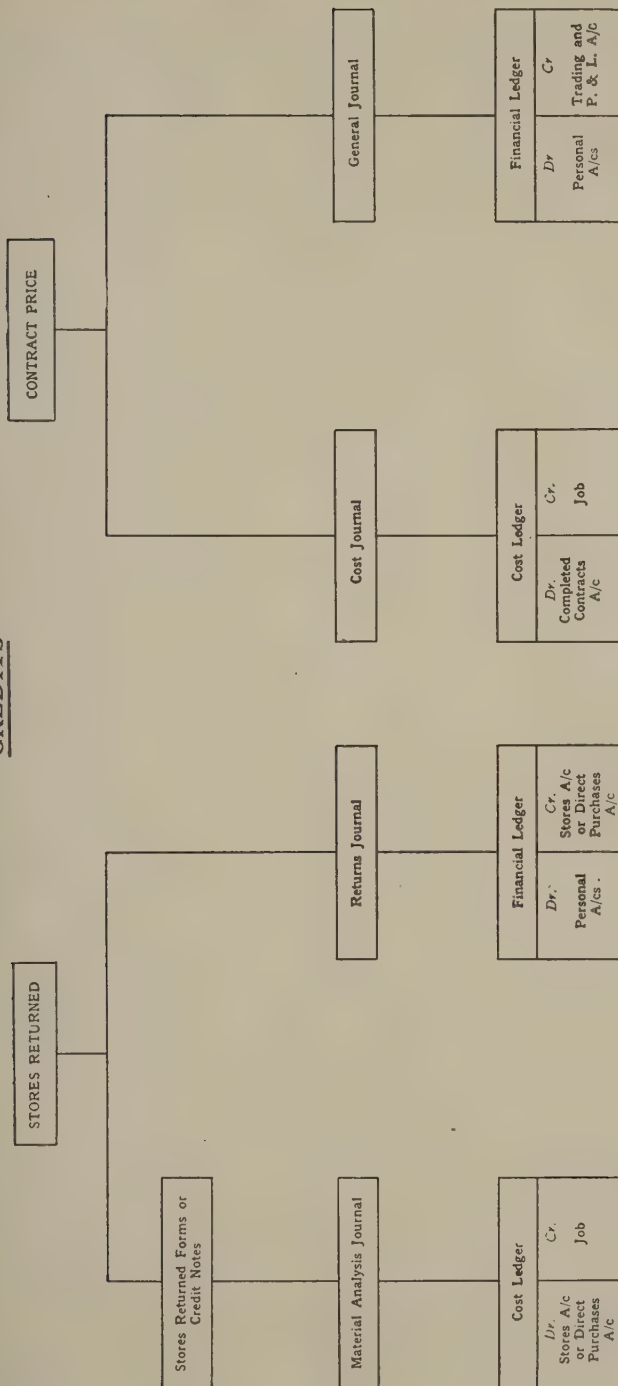
— indicates Income.

..... indicates Expenditure.

CHART SHOWING THE CONNECTION BETWEEN COSTING BOOKS AND FINANCIAL BOOKS AND THE CHANNELS THROUGH WHICH THE ENTRIES FLOW IN BOTH SETS OF BOOKS.

DEBITS



CREDITS

6. While cost accounts and statements are essential in a manufacturing concern they are also very useful in other businesses; even a retail shop can profitably use them, particularly in chart form.

7. Costing does not begin and end with the accounts. It is a physical process, of which the cost statement is but the focus. The position and method of keeping stocks, the economical lay-out of machines, transport, the seating arrangements of the clerical staff, the system of management itself—all are factors in the costing.

8. One of the chief essentials in costing is system; and a vital factor in successful costing is the proper understanding and handling of the human element.

9. It is as important to know the cost of selling as it is to know the cost of buying and of manufacturing.

Financial Books.

We have seen that both the cost accounts and the financial books are written up from the one source. The charts given here will show clearly how the links are forged in the double chain.

Balancing.

As every Ledger (both Cost Ledgers and Financial Ledgers) should have been kept on the self-balancing principle, it will be possible to take out a separate trial balance of each. The necessary closing entries will then be made in the Financial Ledgers (as explained under the "Principles of Book-keeping") and a Trading and Profit and Loss Account compiled in the usual way. As already explained, the totals shown in the Trading and Profit and Loss Account can be compared with the details given in the Cost Ledger. In practice there will be some discrepancies. If these discrepancies are large they should be investigated; if, however, they are small amounts they can usually be written off with safety. The accounts in the Cost Ledger will be closed to a Manufacturing Account, the items appearing on the opposite

side to that on which they appear in the Financial Ledger.

Illustration.

The following simple set of transactions has been worked out to illustrate by practical example the application of book-keeping principles to a manufacturing concern—

YZX started in business as a contractor on the 1st May, 19—, with a capital of £10,000. He spent £500 on office furniture and secured contracts as follows—

Contract No. 1 for	£4,000.
" " 2 "	£6,000.
" " 3 "	£5,000.
" " 4 "	£10,000.

His transactions were as follows—

Stores purchased—£7,000.

Expenditure on Contracts—

Contract No.	Direct Purchases.	Materials from Stores.	Wages.	Direct Charges.	Factory Oncost.	Selling Oncost.
1	£200	£1,000	£1,100	£200	£650	£315
2	300	1,500	1,600	300	1,000	470
3	200	1,200	1,300	250	775	372
4	600	2,400	2,500	400	1,450	735

Received on account of contracts—

From A : in respect of Contract No. 1	£3,000
" B : " " 2	5,500
" C : " " 3	5,000
" D : " " 4	6,000

Stock of stores on hand 900

Show the transactions in the ledgers, and draw up Manufacturing, Trading and Profit and Loss Accounts, and Balance Sheet. All the contracts are completed except No. 4, which is incomplete.

COST LEDGER.

Date.	Particulars.	Wages.	Materials	Direct Charges.	Prime Cost.	Factory Oncost.	Factory Cost.	Selling Oncost.	Folio.	Total.	Date.	Stores Re-turned.	Contract Price.	Folio.	Total.
19—	Job No. 1	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	19—		£ s. d.	£ s. d.	
		1100	200	200											
		1000													
	Profit	1100	1200	200	2500	650	3150	315	21	3465		4000	42	4000	
										535					
										£4000				£4000	
19—	Job, No 2	1600	300	300							19—	6000	42	6000	
		1500													
	Profit	1600	1800	300	3700	1000	4700	470	21	5170					
										830					
										£6000				£6000	
19—	Job No. 3	1300	200	250							19—	5000	42	5000	
		1200													
	Profit	1300	1400	250	2950	775	3725	372	21	4097					
										903					
										£5000				£5000	
19—	Job No. 4	2500	600	400											
		2400													
		2500	3000	400	5900										

Dr.

DIRECT PURCHASE ACCOUNT

Cr.

To Manufacturing Account	£1,300	By Sundry Contracts	£1,300
--------------------------	--------	---------------------	--------

STORES ACCOUNT

To Manufacturing Account	£6,100	By Sundry Contracts	£6,100
--------------------------	--------	---------------------	--------

DIRECT WAGES ACCOUNT

To Manufacturing Account	£6,500	By Sundry Contracts	£6,500
--------------------------	--------	---------------------	--------

Dr.

DIRECT CHARGES ACCOUNT

Cr.

To Manufacturing Account	£1,150	-	-	By Sundry Contracts	£1,150	-	-
----------------------------------	--------	---	---	-------------------------------	--------	---	---

FACTORY ONCOST ACCOUNT

To Manufacturing Account	£	s.	d.	By Sundry Contracts	£	s.	d.
	3,875	-	-	„ Factory Oncost Suspense Account . .	2,425	-	-
					1,450	-	-
	£3,875	-	-		£3,875	-	-

SELLING ONCOST ACCOUNT

To Manufacturing Account	£	s.	d.	By Sundry Contracts	£	s.	d.
	1,892	-	-	„ Selling Oncost Suspense Account . .	1,157	-	-
					735	-	-
	£1,892	-	-		£1,892	-	-

FACTORY ONCOST SUSPENSE ACCOUNT

To Factory Oncost Account—Job No. 4 .	£1,450	-	-				
---------------------------------------	--------	---	---	--	--	--	--

SELLING ONCOST SUSPENSE ACCOUNT

To Selling Oncost Account—Job No. 4 .	£735	-	-				
---------------------------------------	------	---	---	--	--	--	--

COMPLETED CONTRACTS ACCOUNT

To Job No. 1—Contract Price . . .	£	s.	d.	By Manufacturing Account	£	s.	d.
„ „ 2 „ „	4,000	-	-		15,000	-	-
„ „ 3 „ „	6,000	-	-				
	5,000	-	-				
	£15,000	-	-		£15,000	-	-

CONTRACT PROFIT AND LOSS ACCOUNT

To Manufacturing Account	£	s.	d.	By Job No. 1—Profit	£	s.	d.
	2,268	-	-	„ „ 2 „ „	535	-	-
				„ „ 3 „ „	830	-	-
					903	-	-
	£2,268	-	-		£2,268	-	-

MANUFACTURING ACCOUNT

To Completed Contracts Account . . .	£	s.	d.	By Direct Purchase Account	£	s.	d.
„ Balance carried down—	15,000	-	-	„ Stores Account	1,300	-	-
„ Stock and Work in Progress—Job No. 4	8,085	-	-	„ Wages	6,100	-	-
				„ Direct Charges	6,500	-	-
				„ Factory Oncost	1,150	-	-
				„ Selling Oncost	3,875	-	-
				„ Profit on Completed Contracts . . .	1,892	-	-
					2,268	-	-
	£23,085	-	-		£23,085	-	-
				By Balance brought down—			
				„ Stock and Work in Progress—Job No. 4	£8,085	-	-

FINANCIAL LEDGER

CAPITAL ACCOUNT

Dr.				Cr.			
		£	s. d.			£	s. d.
19—	To Balance	c/d	12,268	—	19—	By Cash	10,000
						„ Trading and Profit and Loss A/c—Profit	2,268
		£	12,268	—			12,268
						By Balance	b/d 12,268

OFFICE FURNITURE ACCOUNT

19—	To Cash	£500	—				
-----	-------------------	------	---	--	--	--	--

CASH ACCOUNT

19—	To Capital	£10,000	—	19—	By Sundries as per Cash Book	£22,217	—
	„ Sundries as per Cash Book	19,500	—		„ Balance	7,283	—
		£29,500	—			£29,500	—
	To Balance	b/d	£7,283	—			

A—CONTRACT No. 1

19—	To Completed Contracts Account	£4,000	—	19—	By Cash	£3,000	—
		£4,000	—		„ Balance	1,000	—
						£4,000	—
	To Balance	b/d	£1,000	—			

B—CONTRACT No. 2

19—	To Completed Contracts Account	£6,000	—	19—	By Cash	£5,500	—
		£6,000	—		„ Balance	500	—
						£6,000	—
	To Balance	b/d	£500	—			

C—CONTRACT No. 3

19—	To Completed Contracts Account	£5,000	—	19—	By Cash	£5,000	—
-----	--	--------	---	-----	-------------------	--------	---

D—CONTRACT No. 4

				19—	By Cash	£6,000	—
--	--	--	--	-----	-------------------	--------	---

STORES ACCOUNT

19—	To Cash	£7,000	—	19—	By Trading Account	£6,100	—
		£7,000	—		„ Balance	900	—
						£7,000	—
	To Balance	b/d	£900	—			

DIRECT PURCHASES ACCOUNT

19—	To Cash	£1,300	—	19—	By Trading Account	£1,300	—
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Dr.

WAGES ACCOUNT

Cr.

19—	To Cash	£6,500	—	—	19—	By Trading Account	£6,500	—	—
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DIRECT CHARGES ACCOUNT

19—	To Cash	£1,150	—	—	19—	By Trading Account	£1,150	—	—
-----	-------------------	--------	---	---	-----	------------------------------	--------	---	---

FACTORY ONCOST ACCOUNT

19—	To Cash	£3,875	—	—	19—	By Trading Account	£3,875	—	—
-----	-------------------	--------	---	---	-----	------------------------------	--------	---	---

SELLING ONCOST ACCOUNT

19—	To Cash	£1,892	—	—	19—	By Trading Account	£1,892	—	—
-----	-------------------	--------	---	---	-----	------------------------------	--------	---	---

COMPLETED CONTRACTS ACCOUNT

19—	To Trading and Profit and Loss Account	£	15,000	s. d. — —	19—	By A—Contract No. 1	£	4,000	s. d. — —
						" B " " 2		6,000	— —
						" C " " 3		5,000	— —
		£	15,000	— —			£	15,000	— —

WORK IN PROGRESS ACCOUNT

19—	To Trading and Profit and Loss Account	£8,085	—	—					
-----	--	--------	---	---	--	--	--	--	--

TRADING AND PROFIT AND LOSS ACCOUNT

	£	s.	d.	£	s.	d.		£	s.	d.	£	s.	d.
To Stores Purchases	7,000	—	—				By Completed Contracts				15,000	—	—
Less Stock in hand	900	—	—				" Work in Progress				8,085	—	—
				6,100	—	—							
" Direct Purchases				1,300	—	—							
" Wages				6,500	—	—							
" Direct Charges				1,150	—	—							
" Factory Oncost				3,875	—	—							
" Selling Oncost				1,892	—	—							
" Profit carried to Capital Account				2,268	—	—							
				£	23,085	—					£	23,085	—

BALANCE SHEET

	£	s.	d.	£	s.	d.		£	s.	d.	£	s.	d.
Creditor: D. For Job No. 4 Capital Account—				6,000	—	—	Sundry Debtors: A	1,000	—	—			
Amount originally introduced	10,000	—	—				B	500	—	—			
Add Profit as per Trading and Profit and Loss A/c	2,268	—	—				Office Furniture				1,500	—	—
				12,268	—	—	Stores				500	—	—
				£	18,268	—	Work in Progress				900	—	—
							Cash				8,085	—	—
											7,283	—	—
											£	18,268	—

CHAPTER III

BOOK-KEEPING FOR WHOLESALEERS

THE functions of a wholesaler may be said to be that of a distributor. He collects goods, takes them into his warehouse, arranges them to suit the needs of the markets, and then distributes them to his customers. Consequently, it will be seen that the books of the wholesaler must record the transactions both in the warehouse and in the office or counting house. The warehouse records may be said to be the equivalent of the cost accounts of a manufacturer; they represent the administrative side of the book-keeping and, as with cost accounts, the warehouse books should periodically be compared with the counting house books.

Let us take for purposes of illustration the business of a wholesaler dealing with piece goods.

Warehouse Books.

Such accounts should be kept in the warehouse as will enable the wholesaler to maintain a record of the goods he receives into his warehouse, and those he issues; and also to keep a proper watch on the goods while they remain in the warehouse.

Orders.

As in the case of the manufacturer and the retailer, the wholesaler should keep a very careful and accurate record of orders, both the orders he gives and the orders he receives; and in both cases follow them up systematically to ensure their being promptly and effectually carried out.

Orders Outwards.

Carbon copies should be kept of all orders placed. If the order forms are kept in a bound book, the carbon copies will remain in the book; if written or typed on loose sheets the carbon copies should be kept together on a file. In either case the orders should be numbered consecutively, the corresponding number appearing on the carbon copy, and the copies indexed in

the same way as a letter book. A diary should be kept in which should be noted the dates on which deliveries are due. As goods are received, they should be checked with the advice note and invoice and with the carbon copy of the order, and discrepancies taken up immediately with the suppliers.

Orders Inwards.

These should be numbered consecutively immediately they are received, and filed in numerical order. Particulars should then be entered in an "Orders Inwards Book." A careful watch should be kept to ensure that deliveries are made on the due dates.

Goods Inwards.

As goods are received into the warehouse particulars of them should be entered into a "Goods Inwards Book." The particulars will be obtained from the advice note accompanying the goods. The goods should then be checked, measured and weighed, and the results entered in the Goods Inwards Book, together with the pattern number and piece number, which should be allotted to each pattern and each piece. A note should be made in the book of any discrepancy disclosed in the checking, and a note of such discrepancy sent into the counting house, so that the necessary debit note can be sent to the supplier. Below is a suitable form of Goods Inwards Book. This book is the warehouse counterpart of the Purchases Journal, with which it should be compared periodically.

Goods Outwards.

Goods should on no account be issued without a record of the issue being made. If a copy of the advice note is kept, the one document will thus serve the double purpose of advice note and record of goods outwards. The advice notes should be numbered consecutively, and the copies filed together in numerical order in a similar way to that in which the carbon copies of orders outwards are filed. The counting house will make out the invoice from the particulars given in the Goods Outwards File.

GOODS INWARDS BOOK

Date received.	From whom received.	Particulars.	MANUFACTURERS' NOS.		OUR NOS.				Invoice No.	Length invoiced.	Length received.	Shortage.	Remarks.
			Pat-tern.	Piece.	Posting Tick.	Pat-tern.	Posting Tick.	Piece.					
19-- April 16	Co-operative Textile Association, Ltd.	Navy Serge	821 "	5224 5220	✓ ✓	146 "	✓ ✓	3092 3093	245 "	Yards. 50 52 102	Yards. 50 52 102	Yards. — — —	
	Dyeup & Co.	Mixture Tweed	496 499	3197 3201	✓ ✓	148 149	✓ ✓	3094 3095	246 "	52 51½ 103½	51½ 51½ 102½	½ ½ ½	

The Goods Inwards Book and the Goods Outwards File represent the warehouse books of original entry from which the Stock Ledgers (see below) are posted, and should therefore contain sufficient information to enable those Ledgers to be posted.

Stock Ledgers.

Reference has been made to the pattern number and the piece number. Such numbers are necessary for purposes of identification of each piece of cloth. The manufacturer will have his own series of numbers, and the wholesaler could, if he wished, use the manufacturer's numbers; but almost invariably the wholesaler will find it better to allot numbers of his own, if for no other reason than that he can then keep his numbers in sequence, which he could not do if he adopted the manufacturer's numbers, whose series, covering, as it does, goods supplied to a number of wholesalers, could not provide any one of those wholesalers with a continuous sequence. Every pattern should be given a distinctive number, and every piece should be given a separate distinctive number. It will be understood that the wholesaler may receive several pieces of cloth to one pattern, and under our system of numbering, while the pattern retains its original number, each piece to that pattern must receive an entirely separate number, consequently each pattern may have several piece numbers. It is useful to add a sub-number to each piece number, to indicate the number of pieces received to each pattern. This sub-number should be separated from the piece number by a stroke, thus: 1042/5. To provide the necessary link between the pattern number and the piece numbers, two separate

books should be kept for recording the stock: one, called the Pattern Ledger, for recording the stock under the pattern numbers, with a cross-reference to the piece numbers of each pattern; and the other, called the Piece Ledger, which records the stock under the piece numbers, with a cross-reference to the pattern number in each case.

Pattern Ledger.

Below is a specimen of a Pattern Ledger.

A sample of the pattern should be stuck on the page dealing with that particular pattern. The Pattern Ledger can most conveniently be kept on the movable leaf plan or, perhaps better still, on the card system. A separate leaf or card should be used for every pattern, the leaf or card being kept in the order of the pattern numbers. As it is not desirable to have prices accessible for reference in the warehouse, the cost and selling prices should not be stated in ordinary figures but in a private code. It will be found in practice that some discrepancy will be shown between the total length received and the total length issued. If this discrepancy is slight it can be ignored, but if it is considerable it should be investigated.

Piece Ledger.

A suitable form of Piece Ledger is shown on p. 990.

The Piece Ledger, like the Pattern Ledger, can be kept most conveniently in a movable leaf book or, better still, on the card system, a separate leaf or card being kept for each piece number, and the leaves or cards being kept in the order of the piece numbers. The Piece Ledger will be kept in the counting house, so the prices can be entered

Space
for
Pattern

PATTERN LEDGER

PATTERN No. 146.
COST PRICE **L.**
SALE PRICE **3.**

RECEIVED.					ISSUED.				
Piece No.	Date received.	Invoice No.	From whom received.	Length received.	Date issued.	Order No.	Issued to.	Length issued.	Remarks.
3092	19— April 16	245	Co-operative Textile Association, Ltd.	Yards.	19— April 17 19	241 250 251	Button & Son A. Goose Tape & Cutter, Ltd.	Yards.	
				50				15 9	
				—				26	
				50				— 50	
3093	"	"	Do.	52	April 21 22 23	259 262 263	Martin Harvey & Co. Pitt & Beecham Godetia Bros.	19	
				—				23	
				52				10	
				—				— 52	

in plain figures. Although each piece will have a list sale price, variations are sometimes made from that price; consequently it is advisable to enter the price against each item on the issued side of the Ledger.

As explained above, these ledgers should be written up from the Goods Inwards Book and the Goods Outwards File, the writing up or posting being done as follows: the individual items in the Goods Inwards Book should be entered in both the Pattern Ledger and the Piece Ledger, in each case the entries, of course, being made on the "Received" side of the leaf (or card as the case may be) bearing the corresponding number. As each item is posted, a tick should be placed against it in the Goods Inwards Book to indicate that the item has been posted. In both the Pattern Ledger and the Piece Ledger a leaf (or card as the case may be) should be opened called "Total Issues and Receipts," issues being on the left-hand side and receipts on the right-hand side—just the opposite, it will be seen, to the individual leaves (or cards) bearing the distinctive numbers. Periodically, say, at the end of each calendar month, the Goods Inwards Book should be totalled up, and the total (i.e. the total length of cloth received during the month) should be entered on the "Receipts" side of the "Total Issues and Receipts" Account in each Stock Ledger.

Similarly, the individual items in the Goods Outwards File should be posted to the respective leaves (or cards) in both Stock Ledgers, the items, as they are posted, being ticked as explained above in the case of the Goods Inwards Book. The total of each carbon copy advice note should be carried forward to the next, and so on to the end of the month, when the total should be posted to the issues side of the "Total Issues and Receipts" account in each Ledger. By this method it will be seen we are able to obtain in each of the Stock Ledgers double entry, with all its advantages,

and by taking out a trial balance at the end of any month (i.e. after posting the monthly totals) we can check the accuracy of the entries in the Ledgers. Moreover, we can check each Ledger against the other, since the balance on the total account should be the same in each Ledger, while it is possible to see by a glance at the Total Issues and Receipts Account the total of material that there should be in stock. It is not possible to apply this double entry system in Stock Ledgers where the stock consists of different units, but lengths of cloth lend themselves to such treatment, and advantage ought to be taken of that fact.

Piece Label.

As each piece comes in a label should be fixed to it, giving the pattern number and piece number (with sub-number) and the selling price, this price being marked in the code. It is useful, as a check, and for convenience of stock-taking, to enter on the piece label the length of the piece when received and particulars of each length cut from the piece. A glance at the label will thus show the length of the piece in stock at any time. The following form of piece label will illustrate its uses—

PIECE LABEL

Pattern No. 146		Piece No. 3092	
Length received 50.		Price 3	
Cut :			
Date.	Length.	Order No.	
19—			
April 17	15	241	
19	9	250	
	26	251	
	—		
	50		
	—		

Space
for
Pattern

PIECE LEDGER

PIECE No. 3092.

PATTERN No. 146.

COST PRICE 7s. 6d.

SALE PRICE 10s. 1

RECEIVED.				ISSUED.					
Date received.	Inward Invoice No.	From whom received.	Length received.	Date issued.	Order No.	Issued to.	Length issued.	Price.	Outward Invoice No.
19— April 16	245	Co-operative Textile Association, Ltd.	Yards. 50	19— April 17 19	241 250 251	Button & Son A. Goose Tape & Cutter, Ltd.	15 9 26	s. d. 9 9 10 — 10 —	432 439 440
			— 50 —				— 50 —		

Financial Books.

There is nothing special about the financial books of a wholesaler. The books he should keep and the forms of them will, of course, depend on the nature and the volume of his transactions; but generally speaking he should keep the ordinary books, such as Cash Book, Purchase, Sales and General Journals, and the necessary ledgers, consisting usually of Purchase and Sales Ledger and a Private or Nominal Ledger. He should also keep a Petty Cash Book on the imprest system and in columnar form, and if his transactions include bills of exchange he will need bill books (or journals). At balancing time he should take out a trial balance to check the postings, and then prepare his Trading and Profit and Loss Account, as explained in Chapter I.

To check both his warehouse and financial records, he should at frequent periods compare his Goods Inwards Book (warehouse) and Orders Outwards File (warehouse) with the Purchases Journal (counting house) and Goods Outwards File (warehouse), and the Orders Inwards Book (warehouse) with the Sales Journal (counting house).

CHAPTER IV BOOK-KEEPING FOR RETAILERS

Two things should be borne in mind in connection with a retailer's book-keeping: first, that the book-keeping should be as simple as possible; and secondly, that the book-keeping system must make allowance for the fact that the sales of a retail business are numerous, continuous, comparatively small in amount, and for the most part for ready cash.

The kind of books to be kept must naturally depend on the nature and circumstances of the business. Thus, in some businesses, such as newsagents and others that do a good portion of their trade through roundsmen, a tabular method of book-keeping is almost essential. Reference will be made later to the tabular method. For the present we think that the application of book-keeping principles to the retail trade can best be explained by reference to general methods.

Generally speaking, the following books will be required, namely: Purchases Journal, General Journal, Cash Book, Personal Ledger, Private or Nominal Ledger, Cash Desk Book, Cash Desk Summary Book, Petty Cash Book; and where there are credit sales, a Sales Journal will be required. Where debtors and creditors are numerous, it will be desirable to keep two Personal Ledgers—one for debtors and the other for creditors.

Purchases.

Invoices as received should be treated as in the case of a manufacturing concern (*see* p. 978). The invoices after being checked should be entered in the Purchases Journal, of which the following is an example—

PURCHASES JOURNAL

	Particulars.	In-voice No.	Led-ger Fo.						
19—				£	s.	d.	£	s.	d.
April 16	G. Mith & Co.—								
	1 Gross Writing Pads @ 9s.				5	8			
	doz.				2	10			
	10,000 Envelopes @ 5s. 1,000							7	18
		322	25						

It is not really necessary to enter details in the Purchases Journal, provided the invoices are numbered consecutively and filed in numerical order, and the numbers inserted in the Purchases Journal, as such a method enables the original invoices to be turned up readily. If such a method is followed all that need be entered in the "Particulars" column is the name of the firm from whom the goods are bought.

Having made a list of the purchases in the Purchases Journal, it is now necessary to classify them so as to show the amounts owing to the various creditors for the goods so bought. This is done by posting the individual items from the Purchases Journal to the credit of the accounts in the Personal Ledger. At the end of, say, every month the Purchases Journal should be totalled, and the total posted to the debit of "Purchases Account" in the Nominal Ledger.

Returns and Allowances.

Immediately goods are returned to the seller, or shortages or discrepancies are discovered, a note should be made on the invoices or advice notes, and a debit note sent to the seller. Particulars should be entered in a "Purchases Returns Journal," which may be a separate book or a portion of the Purchases Journal. In either case it should be ruled in a similar way to that in which the Purchases Journal is ruled. The individual items in the Purchases Returns Journal should be posted to the debit side of the accounts in the Personal Ledger, and the monthly total to the credit of "Purchases Returns Account" in the Nominal Ledger. When preparing a Trading Account the total of the Purchases Returns should be deducted from the total of the Purchases and the net amount extended in the Trading Account.

Sales and Cash Receipts.

In a retail business sales and cash receipts are so intermingled that it will be convenient to

Cash Desk and Counter Checks.

We have thus the means of checking the counter assistants and the cashier. The counter assistants should, at the end of the day, hand in the summary of their sales on the summary sheet attached to their Ready Money Sales Invoice Books. This summary should be compared with the Cash Desk Book, care being taken to see that each invoice is accounted for by its number, and that these numbers are consecutive. The total sales of each counter assistant should agree in amount with the takings in that assistant's column in the Cash Desk Book. If there is any discrepancy, the entries must be checked with the duplicate invoices. The total of the "Amount Received" column in the Cash Desk Book should then be compared with the actual cash taken for the day, and they should of course agree. This total should be paid into the bank, and entered on the debit side of the Cash Book.

Posting the Cash Book.

The entries on the debit side of the Cash Book will consist chiefly of takings. These items should be posted in the Nominal Ledger to the credit of Sales Account. The other items on the debit side of the Cash Book should be posted to the credit side of the appropriate Ledger accounts, the items on the credit side of the Cash Book being posted to the debit side of the appropriate Ledger accounts.

Prevention of Fraud.

A system such as is outlined above minimizes the risk of fraud, which would be rendered very difficult in the absence of collusion between the counter assistants and the cashier. To reduce such a risk as far as possible, a periodical check should be applied by some responsible person, and the duplicate invoices compared with the entries in the summary of the Ready Money Sales Invoice Book and the Cash Desk Book.

Check Tills.

Where a business is not sufficiently large to allow of the cash desk system, as explained above, and the counter assistants consequently have to handle money, some system of check till should be installed. There is a variety of such tills from the "roll" tills, where the assistant has to enter the amount of the purchase on a roll of paper fixed in the till, to the more elaborate and costly automatic cash register. The ultimate record of the takings in the books will be made on the same lines as already explained, the difference being in the system of check.

Credit Sales.

Where goods are sold on credit it is important that a record should be kept of the amounts owing in respect of such sales. When the goods

are delivered an invoice should accompany them, and particulars of the invoice should be entered in a Sales Journal or Day Book. This book should be ruled similarly to the Purchases Journal (*see* p. 991) and the entries made and posted in a similar way, the individual items being posted to the debit side of the accounts in the Personal Ledger and the monthly total to the credit of Sales Account in the Nominal Ledger. Statements should be sent to the debtors monthly, these statements being copied from the accounts in the Personal Ledger. As cash is received from the debtors it should be paid into the bank and the amount entered on the debit side of the Cash Book together with any cash discount allowed, the individual amounts of both cash and discount being posted to the credit of the accounts in the Personal Ledger, and the monthly totals of the discount and bank columns to the debit of Discount and Bank Accounts respectively in the Nominal Ledger. Debtors' Ledger Accounts should be watched carefully, and tardy payers urged to settle. Many a bad debt could be avoided if debtors' accounts were more carefully watched.

Payments.

A rule that should never be broken is this: "Never make payments out of moneys received until the amount received has been passed through the books." Where a Bank Account is kept all takings should be banked intact, and payments, except petty cash (which *see*), made by cheque. Generally speaking, statements will be received early every month from creditors, these statements giving a summary of the invoices sent by the creditors up to the end of the previous month, less any credits for returns and allowances and payments on account. The statements should be checked with the Ledger Accounts in the Personal Ledger and with the invoices, any discrepancy being cleared up. The cash discount (if any is allowed) should then be calculated and deducted, and the net amounts paid. The amount of the payment and the discount should be entered on the credit side of the Cash Book, and posted thence to the debit of the accounts in the Personal Ledger, the totals of the discount and bank columns being posted at the end of the month to the credit of Discount and Bank Accounts respectively in the Nominal Ledger.

The books will be closed as explained in Chapter I.

Standard Gross Profit and Estimated Stock.

It is useful to remember that most retail trades have a standard rate of gross profit. Thus in the stationery trade it is usually 33 $\frac{1}{3}$ rd per cent of sale price. It should be possible therefore to apply an approximate check on the Trading Account. In actual practice the exact standard

will not be realized, an allowance being necessary for depreciation, wastage, etc. The gross profit should, however, approximate to the standard percentage on the turnover, and if it does not it is an indication that something is wrong; perhaps the buying is not good, or the sale prices are not right; and an investigation is called for.

Another very useful purpose to which the standard percentage can be put is in the estimating the value of stock on hand without actually taking stock and, from that, the compiling of an approximate or estimated Trading Account and Profit and Loss Account. The estimated value of stock is arrived at by taking the stock on hand as shown by the books at the last balancing time, and adding the purchases to date, and from the total of these two, deducting the sales less the percentage of gross profit as shown by the last Trading Account. The balance will be the estimated stock on hand, thus—

Stock on hand on 1st January, 19—	£	£500
Add purchases during the six months ended 30th June, 19—, as per Purchases Journal		2,000
		<u>2,500</u>
Deduct sales during the six months ended 30th June, 19—, as per Sales Journal	3,000	
Less 30% approximate gross profit	900	
		<u>2,100</u>
Approximate stock on hand on 30th June, 19—		<u>£400</u>

Having ascertained from the above statement that the approximate gross profit for the six months is £900, we can construct an approximate Profit and Loss Account by crediting that account with the approximate gross profit of £900 and debiting and crediting it with the debit and credit balances on the nominal accounts in the Nominal Ledger. In compiling the approximate Profit and Loss Account the totals and balances of the nominal accounts in the Nominal Ledger should be pencilled in; the accounts should not be formally closed until stock is taken, and a definite Balance Sheet made up.

A Worked Example.

The following specimen transactions worked out will illustrate the application of the principles of book-keeping to a retail business—

Horatio Quill started a retail business on the 1st April, 19—, with a capital of £1,000 in cash, which he paid into the bank on that day. The following were his transactions for the months of April and May, 19.—

19—		£	s.	d.
Apr. 1.	Bought the Lease, Goodwill, Furniture, and Fittings of business for £600 and the Stock at valuation of £250	850	—	—
	Drew from the bank and placed in the cash-box for Petty Cash	10	—	—
	Cash Sales	6	10	—
2.	"	6	15	2
3.	"	5	18	6
	Paid Insurance Premiums	3	10	—

19—		£	s.	d.
Apr. 4.	Cash Sales	5	5	9
	Received Goods from Brutus & Son, with invoice, amounting to	24	10	—
5.	Cash Sales	7	12	6
6.	"	8	14	3
	Drew cheque for £8, made up as follows:			
	Self, £4; Wages, £4	8	—	—
8.	Cash Sales	7	3	4
9.	"	7	7	8
10.	"	8	—	2
	Received Goods from Shawe & Shawe, with invoice, amounting to	9	15	—
	Received Goods from Brutus & Son, with invoice, amounting to	14	—	—
11.	Cash Sales	6	1	—
	Returned Goods to Shawe & Shawe, not being as ordered, and sent them debit note amounting to	2	—	—
12.	Cash Sales	8	15	9
13.	"	11	4	6
	Drew cheque for £8, made up as follows:			
	Self, £4; Wages, £4	8	—	—
15.	Cash Sales	8	12	2
	Received Goods from Foster, Tate & Co., with invoice, amounting to	14	—	—
	Received Goods from Shawe & Shawe, with invoice, amounting to	10	10	—
16.	Cash Sales	8	18	1
	Returned faulty Goods to Foster, Tate & Co., and sent them debit note amounting to	1	10	—
17.	Cash Sales	9	4	—
18.	"	6	4	11
19.	"	9	15	6
	Received Goods from Pryce & Smith, with invoice, amounting to	13	10	—
	Received Goods from Shawe & Shawe, with invoice, amounting to	7	15	—
	Received Goods from Foster, Tate & Co., with invoice, amounting to	16	10	—
20.	Cash Sales	10	3	8
	Drew cheque for £8, made up as follows:			
	Self, £4; Wages, £4	8	—	—
22.	Cash Sales	8	3	4
23.	"	9	6	10
24.	"	9	1	3
25.	"	6	11	10
	Received Goods from Brutus & Son, with invoice, amounting to	19	10	—
26.	Cash Sales	10	14	1
	Received Goods from Shawe & Shawe, with invoice, amounting to	21	—	—
27.	Cash Sales	11	19	3
	Drew cheque for £8, made up as follows:			
	Self, £4; Wages, £4	8	—	—
29.	Cash Sales	8	4	10
30.	"	9	17	11
	Drew cheque for Petty Cash Disbursements as follows: Travelling Expenses, £2 6s.; Cash Purchases, £4 4s. 9d.; General Expenses, £3 0s. 5d.			
May 1.	Cash Sales	9	11	2
2.	"	6	18	6
3.	"	9	13	9
4.	"	11	—	4
	"	8	6	2
	Drew cheque for £8, made up as follows:			
	Self, £4; Wages, £4	8	—	—
	Received Goods from Brutus & Son, with invoice, amounting to	22	10	—
6.	Cash Sales	7	19	2
	Received Goods from Shawe & Shawe, with invoice, amounting to	15	10	—
7.	Cash Sales	8	5	9
8.	"	6	10	2
9.	"	8	13	3
	Received Goods from Foster, Tate & Co., with invoice, amounting to	5	10	—

19—	£	s.	d.
May 10. Cash Sales	11	—	3
Paid the following statements—			
Brutus & Sons, £58, less disc't. £1 9s.	56	11	—
Shawe & Shawe, £47, " £1 3s. 6d.	45	16	6
Foster, Tate & Co., £29 " 14s. 6d.	28	5	6
Pryce & Smith, £13 10s. " 6s. 9d.	13	3	3
11. Cash Sales	8	9	8
Drew cheque for £8 made up as follows:			
Self, £4; Wages, £4	8	—	—
13. Cash Sales	7	17	10
Received Goods from Pryce & Smith, with invoice, amounting to	22	15	—
Received Goods from Shawe & Shawe, with invoice, amounting to	27	10	—
14. Cash Sales	9	5	7
15. " " " " " " " " " " " "	6	19	—
16. " " " " " " " " " " " "	9	8	10
Received Goods from Foster, Tate & Co., with invoice, amounting to	25	5	—
Received Goods from Brutus & Son, with invoice, amounting to	29	10	—
17. Cash Sales	11	14	6
18. " " " " " " " " " " " "	9	11	9
Drew cheque for £8, made up as follows:			
Self, £4; Wages, £4	8	—	—
20. Cash Sales	8	19	11
Received Goods from Brutus & Son, with invoice, amounting to	26	10	—
Received Goods from Pryce & Smith, with invoice, amounting to	17	5	—
Bought "Deco" Cash Till	4	4	—
21. Cash Sales	9	5	5
22. " " " " " " " " " " " "	6	17	4
23. " " " " " " " " " " " "	10	3	2
24. " " " " " " " " " " " "	11	12	3
Received Goods from Brutus & Son, with invoice, amounting to	19	10	—
25. Cash Sales	9	12	6
Drew cheque for £8, made up as follows:			
Self, £4; Wages, £4	8	—	—
27. Cash Sales	8	18	10
28. " " " " " " " " " " " "	9	5	4
29. " " " " " " " " " " " "	6	16	2
30. " " " " " " " " " " " "	10	3	1
31. " " " " " " " " " " " "	10	—	5
Drew cheque for £8, made up as follows:			
Self, £4; Wages, £4	8	—	—
Drew cheque for Petty Cash Disbursements for month as follows: Travelling Expenses, £2 11s.; Cash Purchases, £4 16s. 1d.; General Expenses, £2 8s. 4d.	9	15	5

The following amounts were owing on 31st May :

Rent accrued due	12	10	—
Accrued due for Electric Light	2	—	—
The Insurance Premium of £3 10s. paid on 3rd April was paid in advance for the year ended 1st April. Amount chargeable for the months of April and May, 11s. 8d.			
Value of the Stock in hand on 31st May, £305.			

We will now show how the foregoing transactions would be entered in the books of Horatio Quill, get out a Trial Balance, close the books, and prepare a Trading and Profit and Loss Account and Balance Sheet. For the sake of simplicity, we will omit such detailed records as Cash Desk Book and Petty Cash Book, and bring in the totals from those books.

TRIAL BALANCE, 31st MAY, 19—

Led. Fol.				Debit Balances.				Credit Balances.			
Nominal Ledger.											
				£	s.	d.		£	s.	d.	
1	Capital Account							1,000	—	—	
2	Drawings			36	—	—					
3	Lease, Goodwill, Fixtures and Fittings			604	4	—					
4	Stock			250	—	—					
5	Cash Account			356	18	4					
6	Petty Cash Account			10	—	—					
7	Purchases Account			371	15	10					
8	Purchases Returns A/c							3	10	—	
9	Sales Account							459	15	2	
10	Insurance Account			3	10	—					
11	Wages Account			36	—	—					
12	Travelling Exps. A/c			4	17	—					
13	General Exps. A/c			5	8	9					
14	Discount Account							3	13	9	
Personal Ledger.											
1	Brutus & Son							98	—	—	
2	Shawe & Shawe							43	—	—	
3	Foster, Tate & Co.							30	15	—	
4	Pryce & Smith							40	—	—	
				£1,678	13	11		£1,678	13	11	

PURCHASES JOURNAL

		In-voice No.	Led. Fol.								
				£	s.	d.					
19—											
Apr. 4	Brutus & Son	1	1	24	10	—					
10	Shawe & Shawe	2	2	9	15	—					
	Brutus & Son	3	1	14	—	—					
15	Foster, Tate & Co.	4	3	14	—	—					
	Shawe & Shawe	5	2	10	10	—					
19	Pryce & Smith	6	4	13	10	—					
	Shawe & Shawe	7	2	7	15	—					
	Foster, Tate & Co.	8	3	16	10	—					
25	Brutus & Son	9	1	19	10	—					
26	Shawe & Shawe	10	2	21	—	—					
		7		£151	—	—					
May 4	Brutus & Son	11	1	22	10	—					
6	Shawe & Shawe	12	2	15	10	—					
9	Foster, Tate & Co.	13	3	5	10	—					
13	Pryce & Smith	14	4	22	15	—					
	Shawe & Shawe	15	2	27	10	—					
16	Foster, Tate & Co.	16	3	25	5	—					
	Brutus & Son	17	1	29	10	—					
20	" " " " " " " " " " " "	18	1	26	10	—					
	Pryce & Smith	19	4	17	5	—					
24	Brutus & Son	20	1	19	10	—					
		7		£211	15	—					

PURCHASES RETURNS JOURNAL

		Debit Note No.	Led. Fol.								
				£	s.	d.					
19—											
Apr. 11	Shawe & Shawe	1	2	2	—	—					
16	Foster, Tate & Co.	2	3	1	10	—					
		8		£3	10	—					

HORATIO QUILL

BALANCE SHEET, 31st MAY, 19—

SUNDRY CREDITORS—

	£	s.	d.	£	s.	d.
Brutus & Son	98	—	—			
Shawe & Shawe	43	—	—			
Foster, Tate & Co.	30	15	—			
Pryce & Smith	40	—	—			
	211	15	—			
Expenses accrued due— Rent and Electric Light	14	10	—			
				226	5	—
CAPITAL ACCOUNT—						
Amount introduced	1,000	—	—			
Add Profit for two months as per Profit and Loss A/c	67	7	1			
	1,067	7	1			
Deduct Drawings	36	—	—			
				1,031	7	1
				<u>£1,257</u>	<u>12</u>	<u>1</u>

	£	s.	d.	£	s.	d.
Lease, Goodwill, Fixtures and Fittings	604	4	—			
Less Depreciation	21	8	7			
Stock				582	15	5
Insurance paid in advance				305	—	—
Cash at Bank	356	18	4	2	18	4
" in hand	10	—	—			
				366	18	4
				<u>£1,257</u>	<u>12</u>	<u>1</u>

Dr. TRADING AND PROFIT AND LOSS ACCOUNT FOR THE MONTHS OF APRIL AND MAY, 19— Cr.

	£	s.	d.	£	s.	d.
To Stock on 1st April, 19—				250	—	—
" Purchases	371	15	10			
Less Returns	3	10	—			
				368	5	10
" Balance—Gross Profit carried down				146	9	4
				<u>£764</u>	<u>15</u>	<u>2</u>
" Rent and Lighting		14	10			
" Wages		36	—			
" Travelling Expenses		4	17			
" Insurance			11			8
" General Expenses			5			8
" Depreciation			21			8
				82	16	—
" Balance—Net Profit car- ried to Capital Account				67	7	1
				<u>£150</u>	<u>3</u>	<u>1</u>

	£	s.	d.	£	s.	d.
By Sales				459	15	2
" Stock on 31st May, 19—				305	—	—
				<u>£764</u>	<u>15</u>	<u>2</u>
By Gross Profit brought down				146	9	4
" Discounts received				3	13	9
				<u>£150</u>	<u>3</u>	<u>1</u>

JOURNAL

19— May 31			£	s.	d.	£	s.	d.
<i>Rent and Lighting Account</i> <i>Dr.</i>		15	14	10	—			
<i>To Sundries—</i>								
<i>Landlord</i>		5				12	10	—
<i>Electric Light Co.</i>		6				2	—	—
For amounts accrued due, but unpaid at this date.								
<i>Insurance Suspense Account</i> <i>Dr.</i>		17	2	18	4			
<i>To Insurance Account</i>		10				2	18	4
For proportion of insurance premium chargeable to period after 31st May.								
<i>Depreciation Account</i> <i>Dr.</i>		16	21	8	7			
<i>To Lease, Goodwill, Fixtures and Fittings Account</i>		3				21	8	7
For depreciation written off in respect of the two months ended 31st May.								
<i>Purchases Returns Account</i> <i>Dr.</i>		8	3	10	—			
<i>To Purchases Account</i>		7				3	10	—
For transfer to latter account.								
<i>Trading Account</i> <i>Dr.</i>			618	5	10			
<i>To Sundries—</i>								
<i>Stock Account</i>		4				250	—	—
<i>Purchases Account</i>		7				368	5	10
For transfer of balances.								
<i>Sundries—</i> <i>Dr.</i>								
<i>To Trading Account</i>		9	459	15	2	764	15	2
<i>Sales Account</i>								
<i>Stock Account</i>		4	305	—	—			
For transfer of balances.								
<i>Profit and Loss Account</i> <i>Dr.</i>			82	16	—			
<i>To Sundries—</i>								
<i>Rent and Lighting Account</i>		15				14	10	—
<i>Wages Account</i>		11				36	—	—
<i>Travelling Expenses Account</i>		12				4	17	—
<i>Insurance Account</i>		10					11	8
<i>General Expenses Account</i>		13				5	8	9
<i>Depreciation Account</i>		16				21	8	7
For transfer of balances.								
<i>Sundries—</i> <i>Dr.</i>								
<i>To Profit and Loss Account</i>			146	9	4	150	3	1
<i>Trading Account</i>								
<i>Discount Account</i>			3	13	9			
For transfer of balances.								
<i>Capital Account</i> <i>Dr.</i>			36	—	—			
<i>To Drawings Account</i>						36	—	—
For transfer to former account.								
<i>Profit and Loss Account</i> <i>Dr.</i>			67	7	1			
<i>To Capital Account</i>						67	7	1
For transfer to latter account.								

[illegible]

NOMINAL LEDGER
CAPITAL ACCOUNT

Dr.			CAPITAL ACCOUNT										Cr.		
19—				£	s.	d.	19—				£	s.	d.		
May 31	To Drawings	J. 2	c/d	36	—	—	Apr. 1	By Cash	1	1,000	—	—			
	„ Balance			1,031	7	1	May 31	„ Profit and Loss Account	J. 2	67	—	—	1		
				£1,067	7	1				£1,067	7	1			
							19—								
							June 1	By Balance	b/d	1,031	7	1			

DRAWINGS ACCOUNT

19—				£	s.	d.	19—					
Apr. 6	To Cash	1		4	—	—	May 31	By Capital Account	J. 2	£	s.	d.
13	„ „	„		4	—	—				36	—	—
20	„ „	„		4	—	—						
27	„ „	„		4	—	—						
May 4	„ „	2		4	—	—						
11	„ „	„		4	—	—						
18	„ „	„		4	—	—						
25	„ „	„		4	—	—						
31	„ „	„		4	—	—						
				£36	—	—				£36	—	—

LEASE, GOODWILL, FIXTURES AND FITTINGS

19—				£	s.	d.	19—					
Apr. 1	To Cash	1		600	—	—	May 31	By Depreciation	J. 1	£	s.	d.
May 20	„ „	2		4	4	—		„ Balance	c/d	21	8	7
				£604	4	—				582	15	5
										£604	4	—
19—												
June 1	To Balance	b/d		582	15	5						

STOCK ACCOUNT

19—				£	s.	d.	19—					
Apr. 1	To Cash	1		250	—	—	May 31	By Trading Account	J. 2	£	s.	d.
May 31	„ Trading Account	J. 2	c/d	305	—	—		„ Balance	c/d	250	—	—
				£555	—	—				305	—	—
										£555	—	—
19—												
June 1	To Balance	b/d		305	—	—						

CASH ACCOUNT

19—				£	s.	d.	19—					
Apr. 30	To Sundries as per Cash Book	1		1,216	6	3	Apr. 30	By Sundries as per Cash Book	1	£	s.	d.
May 31	„ do.	2		243	8	11	May 31	„ do.	2	905	1	2
								„ Balance	c/d	197	15	8
				£1,459	15	2				356	18	4
										£1,459	15	2
19—												
June 1	To Balance	b/d		356	18	4						

PETTY CASH ACCOUNT

19—				£	s.	d.						
Apr. 1	To Cash	1		10	—	—						

Dr.		PURCHASES ACCOUNT						Cr.		
19—			£	s.	d.	19—		£	s.	d.
Apr. 30	To Cash	1	4	4	9	May 31	By Purchases Returns A/c	3	10	—
	„ Sundries as per Pur-	P.J.	151	—	—		„ Trading Account	368	5	10
	chases Journal	1								
May 31	„ Cash	2	4	16	1					
	„ Sundries as per Pur-	P.J.	211	15	—					
	chases Journal	2								
			£371	15	10			£371	15	10

PURCHASES RETURNS ACCOUNT

19—			£	s.	d.	19—		£	s.	d.
May 31	To Purchases Account	J. 2	3	10	—	Apr. 30	By Sundries as per Pur-	3	10	—
							chases Returns			
							Journal			

SALES ACCOUNT

19—			£	s.	d.	19—		£	s.	d.
May 31	To Trading Account	J. 2	459	15	2	Apr. 30	By Sales for month as per	216	6	3
						May 31	Cash Book	243	8	11
							„ do.			
			£459	15	2			£459	15	2

INSURANCE ACCOUNT

19—			£	s.	d.	19—		£	s.	d.
Apr. 3	To Cash	1	3	10	—	May 31	By Insurance Suspense A/c	2	18	4
							„ Profit and Loss Account	11	8	—
			£3	10	—			£3	10	—

WAGES ACCOUNT

19—			£	s.	d.	19—		£	s.	d.
Apr. 6	To Cash	1	4	—	—	May 31	By Profit and Loss Account	36	—	—
13	„ „	„	4	—	—					
20	„ „	„	4	—	—					
27	„ „	„	4	—	—					
May 4	„ „	2	4	—	—					
11	„ „	„	4	—	—					
18	„ „	„	4	—	—					
25	„ „	„	4	—	—					
31	„ „	„	4	—	—					
			£36	—	—			£36	—	—

TRAVELLING EXPENSES

19—			£	s.	d.	19—		£	s.	d.
Apr. 30	To Cash	1	2	6	—	May 31	By Profit and Loss Account	4	17	—
May 31	„ „	2	2	11	—					
			£4	17	—			£4	17	—

GENERAL EXPENSES

19—			£	s.	d.	19—		£	s.	d.
Apr. 30	To Cash	1	3	—	5	May 31	By Profit and Loss Account	5	8	9
May 31	„ „	2	2	8	4					
			£5	8	9			£5	8	9

BOOK-KEEPING

1001

Dr.			DISCOUNTS ACCOUNT										Cr.				
19— May 31	To Profit and Loss Account	J. 2	£	3	s.	13	d.	9	19— May 31	By Sundries as per Cash Book	2	£	3	s.	13	d.	9

RENT AND LIGHTING ACCOUNT

19— May 31	To Sundries	J. 1	£	14	s.	10	d.	—	19— May 31	By Profit and Loss Account	J. 2	£	14	s.	10	d.	—
---------------	-------------	------	---	----	----	----	----	---	---------------	----------------------------	------	---	----	----	----	----	---

DEPRECIATION ACCOUNT

19— May 31	To Lease, Goodwill, Fixtures and Fittings A/c	J. 1	£	21	s.	8	d.	7	19— May 31	By Profit and Loss Account	J. 2	£	21	s.	8	d.	7
---------------	---	------	---	----	----	---	----	---	---------------	----------------------------	------	---	----	----	---	----	---

INSURANCE SUSPENSE ACCOUNT¹

19— May 31	To Insurance Account	J. 1	£	2	s.	18	d.	4									
---------------	----------------------	------	---	---	----	----	----	---	--	--	--	--	--	--	--	--	--

¹ In the next accounting period, the debit balance on this account will be re-transferred to Insurance Account, and transferred thence to the debit of Profit and Loss Account.

PERSONAL LEDGER

BRUTUS & SON

19— May 10	To Cash	2	£	56	s.	11	d.	—	19— Apr. 4	By Goods	1	£	24	s.	10	d.	—
	„ Discount	„		1		9		—	10	„	„		14		—		—
31	„ Balance	c/d		98		—		—	25	„	„		19		10		—
									May 4	„	2		22		10		—
									16	„	„		29		10		—
									20	„	„		26		10		—
									24	„	„		19		10		—
													£156		—		—
									19— June 1	„ Balance	b/d		98		—		—

SHAW & SHAW

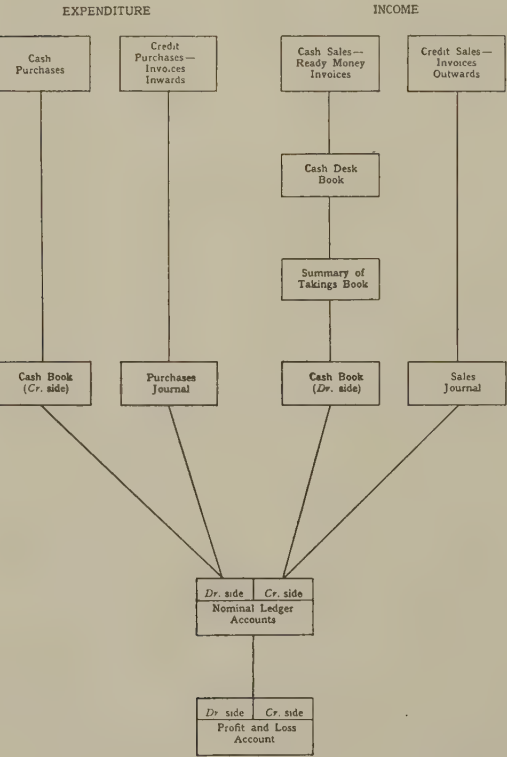
19— Apr. 11	To Returns	1	£	2	s.	—	d.	—	19— Apr. 10	By Goods	1	£	9	s.	15	d.	—
May 10	„ Cash	2		45		16		6	15	„	„		10		10		—
	„ Discount	„		1		3		6	19	„	„		7		15		—
31	„ Balance	c/d		43		—		—	25	„	„		21		—		—
									May 6	„	2		15		10		—
									13	„	„		27		10		—
													£92		—		—
									19— June 1	By Balance	b/d		43		—		—

FOSTER, TATE & CO.

19— Apr. 15	To Returns	1	£	1	s.	10	d.	—	19— Apr. 15	By Goods	1	£	14	s.	—	d.	—
May 10	„ Cash	2		28		5		6	19	„	1		16		10		—
	„ Discount	„		14		6		—	May 9	„	2		5		10		—
31	„ Balance	c/d		30		15		—	16	„	„		25		5		—
													£61		5		—
									19— June 1	By Balance	b/d		30		15		—

Dr.		PRYCE & SMITH										Cr.	
19—			£	s.	d.	19—				£	s.	d.	
May 10	To Cash	2	13	3	3	Apr. 19	By Goods	1		13	10	—	
	„ Discount			6	9	May 13	„ „	2		22	15	—	
31	„ Balance	c/d	40	—	—	20	„ „	„		17	5	—	
			£53	10	—					£53	10	—	
						19—							
						June 1	By Balance	b/d		40	—	—	
LANDLORD													
						19—				£	s.	d.	
						May 31	By Rent	J. 1		12	10	—	
ELECTRIC LIGHT CO.													
						19—				£	s.	d.	
						May 31	By Electric Light	J. 1		2	—	—	

It may be useful to show the steps by which the items of expenditure and income are gathered together in a retail business, and finally focused in the Profit and Loss Account. These steps can be shown best by means of a simple chart, thus—



Departmental Organization.

Where a business has more than one department or deals in more than one class of goods, it is usually desirable to ascertain the result of trading in each department or class of goods, and this result can be ascertained by a simple modification of the book-keeping outlined in the previous pages of this section. All that is necessary is to rule the books of original entry (i.e. the Purchases and Sales and Returns Journals, Counter Assistants' Books, etc.) with a column for each department or class of goods, and a total column. Particulars must be entered in the appropriate column and the total extended into the total column, invoices being analysed if necessary for that purpose. The following is a form of columnar Purchases Journal, suitable for departmental organization—

PURCHASES JOURNAL											
Date.	Name.	Invoice No.	Ledger Fo.	Total.	Stationery.	Fancy Goods.	Books.				
19—				£ s. d.	£ s. d.	£ s. d.	£ s. d.				
May 3	Jones & Jun-kum	35	60	25 10 —	10 10 —		15 — —				
	5 T. R. Smith	36	24	5 5 —		5 5 —					
	10 Coson & Son	37	42	17 — —		17 — —					
	15 Jones & Jun-kum etc.	38	60	8 10 —	6 — —		2 10 —				
				£ 80 1 —	32 16 —	32 5 —	15 — —				

The individual items should be posted to the corresponding accounts in the Personal Ledger. The posting of the Nominal Ledger is a little different from the procedure explained in the case of a business dealing with one class of goods only ;

The Cash Desk Book will require modification where there is more than one department. It should be kept in columnar form similar to that in which the Purchases Journal is kept. A separate page should be kept for each assistant. The assistants' counter invoices must be dissected and the amount appertaining to each department entered in the appropriate column, and the total of the invoice in the total column.

At balancing time the balance of each of these accounts should be transferred to the Trading Account. It is unnecessary to make out a separate Trading Account for each department ; the same result can be obtained more conveniently by compiling one Trading Account in columnar form, with a column for each department. Where each department has its own assistants, their wages can be charged direct to the department concerned ; in the Wages Book the names of the assistants for each department should be grouped together, and the total for each department entered separately in the Cash Book, so that the total for each department can be posted from the Cash Book to the debit of that department in the Nominal Ledger. Items of expenditure that cannot be allocated exactly to any one department, such as rent, lighting, etc., should be apportioned between the departments. There are several methods of making this apportionment. Probably the best and simplest method is to charge to each department the proportion of the indirect expenditure that the sales of that department bear to the total sales of the whole business, unless some more exact plan is afforded by the circumstances of the business and the nature of the expenditure.

Small businesses as a rule can derive much advantage from the use of columnar or tabular book-keeping.

A comparatively large class of retail businesses comprises the small shop conducted single-handed, and dealing with more than one class of goods. Let us take, for example, a small shop selling stationery, books, and toys. The sales would probably be for ready cash only, and the purchases would be made on such short credit that it is

MONDAY 14TH MAY 19—

Assistant No.	Total.	Stationery.	Fancy Goods.	Books
1	£ s. d. 1 13 5½	£ s. d. 1 15 5½	£ s. d. 1 14 4	£ s. d. 4 9 4
2	3 17 8½	1 19 4½	1 9 4	9 11 11
3	3 9 7½	1 14 -	17 7½	18 - -
Daily Total	£9 - 9½	£4 8 10	£3 - 11½	£1 11 -

The daily total should be posted from this book to the debit side of the Cash Book, and the monthly total of each column entered on the credit side of the corresponding account in the Nominal Ledger.

SUMMARY OF TAKINGS BOOK

MAY, 19—

Date.	Total.	Stationery.	Fancy Goods.	Books.
	£ s. d.	£ s. d.	£ s. d.	£ s. d.
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				
14	9	4	3	1
etc.	-	8	-	11
30	9½	10	11½	-
31				
Monthly Total	£210 4 7	£90 2 4	£88 2 9	£31 19 6

unnecessary to keep Personal Ledger Accounts. The volume and nature of the trade do not justify an elaborate set of books ; but on the other hand it is essential that some accounts should be kept, and for want of a simple method of keeping accounts shops of this class are frequently conducted much less efficiently than they ought to be. The following is an outline of a system proved in actual practice to be simple and efficient in a number of retail businesses, including confectioners, tobacconists, stationers, toy dealers, etc. The only requirements are : (1) a separate till for each class of goods, e.g. one each for stationery, books, and toys ; (2) two files, one for paid invoices and the other for unpaid invoices ; and (3) a columnar Cash Book ruled as opposite.

At the end of the day the contents of each till should be counted, and the amount entered in the appropriate column on the debit side of the Cash Book, the total being extended into the total column. Where a Bank Account is kept the total takings should be banked intact the day after they are received. In that case the total column in the Cash Book will represent the Bank Account. As invoices are received for goods bought, the invoices should be checked and initialed, and placed in the unpaid invoices file. When statements are received they should be checked with the invoices on the unpaid invoices file, the discount deducted and the net amount paid, the net amount being entered in the appropriate column on the credit side of the Cash Book, and the total extended to the total column. The invoices should be marked paid (to avoid the possibility of their being paid twice over) and transferred with the statement to the paid invoices file. Cash purchases should be dealt with in a similar way. As expenses are paid, the amount should be entered in the appropriate column and the total extended. Drawings should be dealt with similarly. At the end of each week the columns should be ruled off and totalled up, and the totals transferred to a summary, ruled in exactly the same way as the detailed Cash Book. This summary may be written at the end of the detailed Cash Book or in a separate book, as may be more convenient.

This summary serves two purposes : in the first place it provides a useful means of comparing the weekly figures under each heading ; and, secondly, by totalling up the summary at the end of the year or half-year, the income and expenditure can, subject to certain adjustments explained later, be ascertained for the purpose of compiling the Profit and Loss Account. These adjustments are necessary because the amounts actually paid during the trading year do not necessarily represent the amount of purchases or expenses to be brought into account ; the cash payments will probably include certain purchases made during the previous trading period, and equally probably will not

CASH BOOK

Date.	Particulars.	TAKINGS.				Sun-day Re-ceipts.	Total Receipts.	Date.	Particulars.	PURCHASES AND EXPENSES.				Other Payments.	Drawings.	Total Payments.
		Stationery.	Books.	Toys.	Total Takings.					Stationery.	Books.	Toys.	Pack-ing, etc.	Rent, Rates, etc.		
19—		£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	19—	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
May 14		1 1 6	15 —	1 10 9	3 7 3	3 7 3	3 7 3	May 14		3 10 6						3 10 6
15		1 4 9	12 3	1 8 2	3 5 2	3 5 2	3 5 2	15		10 9						10 9
16		1 6 4	17 1	1 3 8	3 7 1	3 7 1	3 7 1	16		5 6 11	1 3 1	2 9 6	10 9			8 19 6
17 (Thursday)		19 10	12 —	16 5	2 8 3	2 8 3	2 8 3	17		1 10 —						1 10 —
18		2 1 2	18 6	1 15 8	4 15 4	4 15 4	4 15 4	18								4 —
19 (Saturday)		2 6 6	1 1 2	2 7 3	5 14 11	5 14 11	5 14 11	19								4 —
Weeky Total	£	9 — 1	4 16 —	9 1 11	22 18 —	22 18 —	22 18 —		£	8 17 5	1 3 1	3 19 6	10 9		4 —	18 10 9

	£
Purchases for the half-year ended 30th June, 19—,	
as per Cash Book Summary	1,000
Deduct amount owing 31st December, 19—	50
Add amount owing 30th June, 19—	950
Total purchases for the half-year ended 30th	£1,020
June, 19—, to be brought into account.	

The value of a lease diminishes until the time when it expires, when of course it is worth nothing. So in each succeeding Balance Sheet the value shown of a lease should be reduced by a sufficient amount to write it down to zero by the time it expires. Similarly, as fixtures and fittings may be said to depreciate in value with time, a certain amount should be written off the value of those assets at the end of every trading period. The amount so written off should be entered on the debit side of the Profit and Loss Account as an expense, and deducted from the value in the Balance Sheet.

[illegible]

Newsagents', Bakers', and Similar Businesses.

In these businesses and others where sales are made by roundsmen, tabular book-keeping is a great advantage. A combined Delivery (or sales) Book and Cash Receipts Book should be kept on the lines shown on opposite page.

Books ready printed containing instructions for use can be obtained at most booksellers. The amount handed in by the roundsmen should be checked with the total of the "received" column in his book and put into the proper till, so that at the end of the day it will be brought into the

Cash Received Book, and thence, at the end of the trading period, into the Profit and Loss Account, as explained above. If the cash-till system is not adopted, but an ordinary set of books kept, the weekly totals of the columns will be entered in the books through the Journal, e.g. the total of the weekly sales will be credited to Sales Account, and the weekly total of Allowances and Bad Debts debited to Allowances and Bad Debts Account. The total of the "Balance carried forward" column at the end of the year will represent the amount owing by sundry debtors for papers, etc., supplied.

PROFIT AND LOSS ACCOUNT									
FOR YEAR ENDED 31ST DECEMBER, 19—									
Dr.					Cr.				
	£	s.	d.			£	s.	d.	
To Stock as per last Balance Sheet—					By Takings as per Cash Book				
Stationery	214	1	6		Summary—				
Books	34	10	—		Stationery	506	6	10	
Toys	98	4	9		Books	206	4	9	
				346 16 3	Toys	624	—	6	
„ Purchases as per Cash Book									1,336 12 1
Summary—					„ Stock on hand—				
Stationery	316	5	6		Stationery	195	3	10	
Books	152	3	9		Books	31	4	6	
Toys	382	1	5		Toys	89	6	5	
				850 10 8					315 14 9
Deduct amount owing 31st									
Dec.,	62	4	4						
				788 6 4					
Add amount owing 31st									
Dec.,	48	3	6						
				836 9 10					
„ Expenses as per Cash Book									
Summary—									
Packing, etc.	15	2	6						
Rent, Rates, etc.	120	—	—						
Sundries	48	15	7						
				183 18 1					
„ Depreciation of Lease	20	—	—						
„ Depreciation of Fixtures and									
Fittings	5	—	—						
				25 — —					
				1,392 4 2					
„ Net Profit for year				260 2 8					
				£1,652 6 10					£1,652 6 10

BALANCE SHEET									
31ST DECEMBER, 19—									
	£	s.	d.			£	s.	d.	
Sundry Creditors as per Profit and					Lease—as per last Balance Sheet .	150	—	—	
Loss A/c				48 3 6	Less Depreciation as per Profit				
Capital—					and Loss A/c	20	—	—	
Balance as per last Balance Sheet	529	11	11						130 — —
Add Profit for year as per Profit					Fixtures and Fittings as per last				
and Loss A/c	260	2	8		Balance Sheet	95	—	—	
				789 14 7	Less Depreciation as per Profit				
Deduct Drawings as per Cash					and Loss A/c	5	—	—	
Book Summary	200	—	—						90 — —
				589 14 7	Stock as per Profit and Loss A/c .				315 14 9
					Cash in hand as per Cash Book				
					Summary				102 3 4
				£637 18 1					£637 18 1

WEEK ENDING 18TH AUGUST 19--

1007

SECTION 45

Costing for Small Traders

By G. JOHNSON, F.C.I.S., F.L.A.A.

CHAPTER I INTRODUCTORY

SINCE the Great War increasing publicity has been given in trade and other journals to the importance of efficient costing in trading undertakings generally, which it is hoped has not entirely fallen on stony ground, for no proof is required of the necessity for systematic cost-keeping in the world of production. The object of the present section is to describe in simple language, as lucidly as possible, a system of costing, the principles of which may be readily applied in the businesses of small traders without incurring any untoward expense. But before proceeding with our exposition it may not be without interest to the reader by way of introduction to observe some incidental matters that arise in the course of the general study of the subject.

What is Costing?

In practice, the term "costing" denotes a systematic and analytical record of expenditure incurred on the subject to which it relates, presented in due form and time and in adequate detail. The amount of detail to be collated obviously varies with the number of processes necessary in the manufacture of the completed articles, and with the proportions of the business carried on.

In the case of the merchant, or wholesale house, whose transactions are confined to mere buying and selling, and do not, therefore, involve the root subject of production, his costs are easily ascertained, and his system is not comparable with that imposed by the operations of manufacture. In general his cost of unsold purchases is increased by rent and other charges since the date of purchase, and interest on the liquid or floating capital sunk therein.

Some Costing Terms.

In application the subject is not without nomenclature. For instance, we have, among others, *terminal* or *terminating costs*, which relate to contracts or works of builders or contractors, including bridge builders, constructional engineers, and such other businesses in which constructional contracts constitute the primary feature. The term *operating costs* has reference to railways,

tramways, electricity supply, gas, water and other companies in which the operating expenditure may be expressed in terms of a more or less natural unit, e.g., ton mile, car mile, unit generated, and so on. To gold, coal, ironstone, tin, lead, and other descriptions of mining, quarrying and brewing the term *single costs* is often applied. Here also the costs may be readily translated into terms of a basic unit. To the chemical, tanning and textile industries the appellation of *process costs* seems appropriate, while *multiple costs* connote an undertaking in which the productions are varied, and are made in parts, standardization being one of the principal characteristics.

All in cost is the title used by rubber growing and manufacturing companies, the precise meaning of which will be clear from the following condensed illustration—

Cost per lb.	d.
Estate operations	12-43
Depreciation	1-06
F.O.B. Cost	13-49
Freight and Selling Expenditure	1-93
London Expenses	-44
All in cost	15-86
Price realized per lb. . . .	20-61
Profit per lb. . . .	4-75

Branch Shops.

In undertakings comprising numerous branch shops, e.g. the grocery and provision trade, we have frequent actual stocktaking and comparison with the estimated rate of profit after making allowances for wastage, shortages and differences arising from retailing in small quantities. The Inspector's department keeps a record of all supplies to each shop at selling prices. From the returns of takings or receipts, and with the result of the actual stocktaking, the department is able to exercise a check on the record of each shop. Lastly, in the stores business or, as it is sometimes called, the business of universal providers in which sectionalism or departmentalism is the chief feature in organization, the clerical work and routine are arranged to facilitate the preparation of frequent statements, as shown opposite, showing the position and progress of each department from time to time; the stock being subjected to actual verification at intervals.

therefore necessary, the details of which will vary according to the value and magnitude of the business carried on. All purchases for stock are debited to a Stores Stock Account and, with the exception of those bought through petty cash, credited to the supplier. Special purchases for particular contracts should be debited direct to the work. The precise system adopted should ensure protection and accuracy in dealing with the return

plus productive wages, constitute what is known as *prime cost*.

The price at which a complete stock order is taken into stock is, of course, entirely a matter for the consideration of the trader. For example, if a stock order has occupied three months in completion, interest for that period on the capital absorbed therein at a decided rate may be added thereto and Profit and Loss credited. It is,



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LITHOGRAPHIC DEPARTMENT
(Roneo Works)

Roneo, Ltd.

of stores to stock and the transfer of materials from one job to another so that the necessary entries may be made.

Analysis of Stores Issued.

At regular intervals an analysis of the stores issued should be prepared, and the totals, by an appropriate formal journal entry, debited to the respective accounts and credited to Stores Stock Account. An outline of a suitable form for that purpose is illustrated on p. 1011.

Stores and materials absorbed in manufacture,

however, merely a book entry, and the procedure is theoretically correct; but in some instances it is doubtful if any advantage is gained from a practical point of view.

Loose Tools.

A Loose Tools in Use Account may be raised, and issues debited thereto. At the end of the financial year an inventory and valuation of the tools in use may be made, and the difference in value, that is the difference between issued and estimated value, debited to Profit and Loss

The system of drawing cheques for petty cash purposes, recording the petty cash disbursements in analytical form, and posting the totals periodically to the relative Ledger accounts possesses many advantages and is greatly favoured. Any items therein that the trader is able to allocate definitely to specific jobs may be so treated. The form of the book is as shown at the foot of p. 1012.

The following *pro forma* accounts with notes thereon serve to illustrate our observations.

[illegible]

and that the following shows the accounts in the Contracts Ledger—

JOB No. 1	
<i>Dr.</i>	<i>Cr.</i>
To Wages	By A
" Materials	" "
" Petty Cash	" "
" Profit and Loss	" "
<u>£2,365</u>	<u>£2,365</u>

JOB No. 2

<i>Dr.</i>	<i>£</i>	<i>Cr.</i>	<i>£</i>
To Wages	400	By B	750
„ Materials and Stores	600		
„ Profit and Loss	100		

JOB No. 3

<i>Dr.</i>	<i>£</i>	<i>Cr.</i>
To Wages	400	
„ Materials and Stores	350	
„ „ „	70	

JOB No. 4

<i>Dr.</i>	<i>£</i>	<i>Cr.</i>
To Wages	250	
„ Materials and Stores	75	

STOCK ORDER (A)

<i>Dr.</i>	<i>£</i>	<i>Cr.</i>
To Wages	270	
„ Materials and Stores . .	350	

STOCK ORDER (B)

<i>Dr.</i>	<i>£</i>	<i>Cr.</i>
To Wages	290	
„ Materials and Stores . .	150	

(In progress)

Dr.	A		Cr.
	£		£
To Job No. 1	500	By Cash	500
" " 	400	" " 	400
" " 	200	" " 	200
" " 	600	" " 	600
" " 	1,265	" " 	665
		" Balance	665
	<u>£2,365</u>		<u>£2,365</u>
To Balance	665		

Dr.	B	Cr.
To Job No. 2 . . .	$\frac{\text{£}}{750}$	By Cash . . . $\frac{\text{£}}{750}$

Suppose, further, that the general charges or cost of administration and distribution, i.e. rents, rates, salaries, advertising, printing and stationery, commissions and other expenses, amount to £1,800; that the result of other completed contracts during the period shows, after deducting any losses, a profit of £2,500, and that there are no outstanding debtors in respect of them, our trader's Balance Sheet and Profit and Loss Account may be as under—

BALANCE SHEET, AS AT 31ST DEC., 19..

	£	£		£
<i>Capital</i>			Plant, Machinery, Furniture	1,500
As per last a/c	10,000		Stock of Stores and Materials (including Stock Order A)	2,620
Add Profit as per P. & L. A/c	1,640		Amount owing on completed Contract (A)	665
	11,640		Contracts in progress—	
Deduct Drawings	600		Job No. 2	£1,100
		11,040	„ 3	820
Creditors and Credit Balances	1,000		„ 4	325
				2,245
			Less amt. recd.	750
			(B)	1,495
			Add stock order in progress	440
				1,935
			Amounts owing in Sundry Sales Account	200
			Cash at Bank and in hand	5,120
		£12,040		£12,040

PETTY CASH

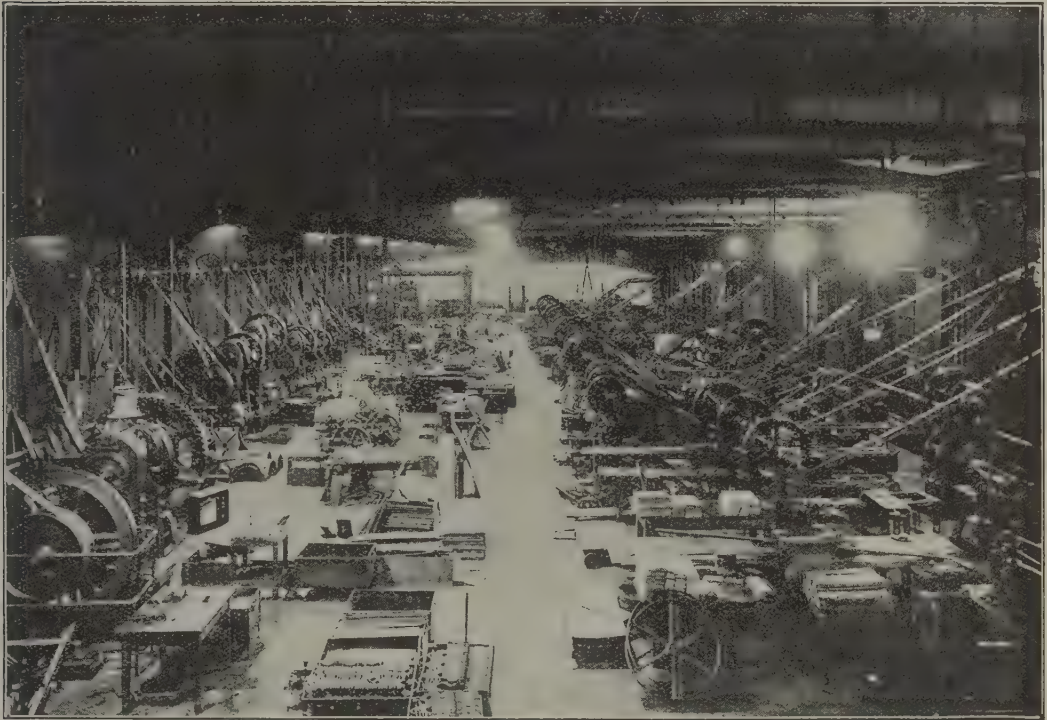
[illegible]

PROFIT AND LOSS ACCOUNT FOR YEAR ENDED
31ST DEC., 19..

	£		£	£
To Cost of Administration		By Profit on com-		
and distribution .	1,800	pleted contracts	2,500	
„ Depreciation .	350		590	
„ Balance .	1,640			3,090
		„ Profit taken on uncom-		
		pleted contract No. 2	100	
		„ Profit on Sundry Sales	600	
	<u>£3,790</u>			<u>£3,790</u>

has paid. £100 estimated as profit at date on this job is taken to Profit and Loss and as jobs Nos. 3 and 4 are in progress at the end of the year they have been taken into the Balance Sheet.

Stock order A has been completed and taken into stock. Here a journal entry would be made crediting stock order A and debiting Stock Account. Stock order B is in course of progress at the date and is included in the Balance Sheet. Subject to the foregoing observations, the



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The B.T.H. Co., Ltd.

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Notes on Accounts.

It will be noticed that Job No. 1 was completed during the year. The debits of wages, materials, and petty cash disbursements would be made by way of journal entries. At different dates during the year A was debited with various sums in respect of contract as shown by the credits, and the result of the job was a profit of £590. If we turn to A's account in the Contracts Ledger we see that at the end of the trader's financial year A still owes £665 on the work done.

On job No. 2 £1,100 has been spent, and B has been debited with £750 on that account, which he

amount owing on completed contract No. 1 and the amounts expended on contracts in progress, less amount debited in respect of contract No. 2, plus the amount spent in stock order B unfinished at date, are clearly set forth in the Balance Sheet. The credit items on Profit and Loss Account as indicated in that statement are self-explanatory.

The trader should see, independently of the subject of profits, that his plant, machinery, tools, etc., are adequately depreciated. In some classes of contract it is usual to stipulate that, say, 10 per cent shall be deducted from the value of the work done at the contract prices shown by the engineer's certificates, and that such retentions shall be paid

with interest at, say, 4 or 5 per cent twelve months after the completion of the contract.

The carrying of materials and stores is a subject on which no hard and fast rules can be laid down, as so much depends on market prices and other fluctuating circumstances in each case. When it is deemed necessary to hold or carry a large stock, which may be on hand, albeit in diminishing quantity, for a long period, some provision for interest on the capital sunk thereon may be necessary when estimating for jobs and contracts.

As we have already indicated in other directions, the precise mode of time-keeping, the receipt and issue of stores, and the general treatment of relative incidental matters, necessarily depend on the detailed nature and magnitude of the business pursued.

System where Factory away from Office.

If the factory be situated in the provinces and the chief office in London, say, the organization should provide for the complete assimilation of the accounts at the factory with those in the books kept at the chief office, the routine which is thus brought into operation constituting at any rate a partial means of internal check. In this connection it may be of interest to notice an elementary example. Whether the factory receives from the head office periodical wages cheques, or enters into some arrangement with a local bank, the London office will debit the factory office with the amounts so drawn. The factory office will correspondingly credit their London Office Account and debit Wages Account. Weekly the factory office will prepare the usual wages analysis, crediting Wages Account with the total and debiting the various contracts, stock orders, and capital revenue accounts concerned in the expenditure. In the Cost Ledger at the works, columns will be provided for crediting those accounts and debiting the London office. A properly certified copy of the weekly wages analysis is sent to the London office where by a journal entry the total is credited to the Factory Office Account, and the various contracts to the accounts are debited.

A similar course is followed in regard to the purchase of materials and stores issued, the remittances for the purchases being made by the chief office on certified accounts, invoices, and summaries. Every invoice for stores and materials passed to the London office for payment bears the following certification by the factory—

CERTIFICATION

Condition	
No. and Weight	
Prices	
Calculations, additions, and expenses	
Discounts	
Executive	

The London office will debit the Factory Account with all stores and materials purchased, the counter-part being effected by the factory office crediting the London office and debiting Stores Account. At the end of each month or other uniform period an appropriation of the stores and materials issued is prepared and sent to the London office. The factory office debits the various relative accounts and credits its Stores and Materials Account accordingly. When it transfers the cost to London it will credit the different contracts and debit London, which debits the contract accounts raised in its Factory Ledger, and credits the Factory Account. The contract accounts kept by the London office are, of course, a condensed copy of the accounts in the Cost Ledger at the factory.

Stores Ledger.

Various modes of recording the receipt and issue and stock of stores and materials are in vogue. Sometimes a Stores Inward and Stores Issued Book are kept, suitable accounts being raised in the Stores Ledger to which the items are posted. Stores are supplied on properly authenticated requisitions, and suitable forms are used dealing with the transfer of stores from one department or job to another, and for returns of stores to stock, so that the necessary adjusting entries may be made in the Cost and other books.

An illustration of a Stores Ledger is given on the next page.

Expenditure Accounts

It is necessary when installing a system of costing that a detailed list of expenditure accounts should be made with explanatory notes where needed, e.g.—

No.	Name of Account.	Notes.
1	Buildings, new construction . . .	
2	" Alterations, Cap. Expen. . .	
3	" Rev. " . . .	
etc.	Fixtures, Fitting, and Equipment . .	
	Motive Power Plant . . .	
	Wages . . .	
	Superintendence . . .	
	Idle and Wasted Time . . .	
	R. and M. Plant and Machinery, . .	
	Pulleys, Shafting, Tools . . .	
	Stores used in Shop . . .	
	General Factory Expenses . . .	
	Office Salaries . . .	
	Watchmen . . .	
	Management Salaries, etc., etc. . .	

Cost Ledger.

On the next page is a ruling of a Cost Ledger. Costing and estimating in technology, particularly in textile trades, embrace many subjects of which technical knowledge is necessary apart from systematic collation, dissection, and the science of accounting.

SECTION 46

Formation and Accounts of Partnership

By F. F. SHARLES, F.S.A.A., A.C.I.S.

CHAPTER I

FORMATION OF A PARTNERSHIP

THE two chief reasons that move an individual to take a partner into his business are financial and administrative reasons. With regard to finance, the matter may be looked at in two ways: the individual might find that his financial resources will not allow of his continuing his business single-handed, and so he is compelled to seek a partner who can introduce additional capital by way of either cash or credit; or the individual trader might consider that by taking a certain person in as a partner that person would, by his influence or connection, bring additional business and profit to the financial benefit of the individual trader. On the score of administration, an individual may find that his business is expanding so that he cannot cope with its administration single-handed, and, feeling that the nature of the work is such that it cannot advantageously be entrusted to a paid servant, he may decide to take a partner who can relieve him of a part of his burden. The administrative reason for taking a partner will be found most in a professional concern, where the work is of a personal nature; in a trading or commercial business a partnership is more often the outcome of financial reasons.

There are other reasons for partnerships besides finance and administration. Sometimes a partnership finds its origin in sentiment, such as relationship or friendship, or even charity; but while business is crammed full of sentiment it is not built on it, and so we need not consider here partnerships that arise from sentiment, except to say that they should be avoided.

Advantages and Disadvantages of a Partnership.

The advantages of a partnership will have been discerned from the previous paragraph. It permits of more extensive business by the advent of either additional capital or fresh connections. There are also the advantages that accrue from the sharing of the administrative and executive burdens. There is moreover an advantage that is personal to the individual, inasmuch as a satisfactory partner should, by easing the individual trader of some of his burden, bring to him a larger share in the joys of life.

On the other hand there are disadvantages. The individual in business proposing to enter into partnership, like the bachelor in love proposing marriage, must be prepared to sacrifice many of the joys of single blessedness: sole control of his affairs, absolute freedom of movement; these will no longer be his. Further, he will have to accept his share in the partnership liabilities incurred by his partner. And then there is the very serious risk of incompatibility of temperament. All these points should be considered very fully and carefully by the trader who contemplates entering into partnership. But there is always this difference between the partner in business and the Benedict: that whereas the latter enters into domestic partnership "until death do us part," the business man can, by agreement, put a term to his partnership.

Selecting a Partner.

The utmost care should be taken in selecting a partner. The most important qualification to be looked for is trustworthiness. A partnership that is not founded on mutual confidence and trust is doomed to failure. Opposite qualities probably form the best partnerships: enterprise leavened by caution should be a good combination. Consider the personal appearance of your prospective partner; but pay even more attention to a very thorough and searching examination of his credentials. Never take a partner who does not risk something in the business; and above all do not work with a partner before first entering into a written agreement with him.

Procedure in Forming the Partnership.

Partnerships are governed by the Partnership Act, 1890. The Act defines a partnership as "the relation subsisting between persons carrying on a business in common with a view to profit." A partnership must consist of not more than ten persons for a banking business, and of not more than twenty persons for any other business. Any body of persons exceeding those numbers must be registered as a company under the Companies Acts, 1908 to 1917. The Partnership Act, 1890, contains provisions that apply to partnerships where there is no agreement between the partners, and it also contains the general law of partnerships, which cannot be contracted out of by any agreement.

Goodwill.

This asset is called goodwill. It probably does not figure in the books, but the incoming partner will be told of the existence of this asset called goodwill, and he will have to pay for a share in the goodwill as well as for a share in the assets shown by the books.

Goodwill is the benefit arising from the connection, reputation, or position of a business. Thus, the practice of a professional man has a goodwill value arising from connection and reputation; a business which manufactures or sells a patent medicine has a goodwill value from its reputation; while a railway hotel has a goodwill value that arises from its position.

Valuing Goodwill.

On the admission of a new partner some means must be found of valuing the goodwill of the business. The method of valuation is not always the same; it depends on the nature and conditions of the business. The goodwill of a retail business is usually based on the turnover, but it is difficult to suggest a more definite approach to a figure, as so much will depend on the particular circumstances. For example, the length of the lease will affect the value of the goodwill, because although a lease has a value quite apart from that of the goodwill, if the lease is nearly expired there cannot be much goodwill attaching to a business dependent on its position if there is no security of tenure in that position. In other cases the goodwill may be assessed on the net profits, usually on a two to five years' purchase price; that is, the average annual net profits for, say, the past three years, multiplied by 2 or 3 or 4 or 5, as may be agreed, will give the value of the goodwill. Thus—

Net profits for the year 19—	.	.	.	£
Do. 19—	.	.	.	882
Do. 19—	.	.	.	1,054
				1,226
				<u>3)£3,162</u>
Average annual net profit	.	.	.	£1,054
$£1,054 \times 2 = £2,108$, value of Goodwill.				

Value of Partner's Share.

Having decided the value of the goodwill, and the share in the business that the incoming partner is to have, the value of that share must be fixed: or if, on the other hand, it is the amount of the capital that the incoming partner agrees to bring in that is fixed, then it becomes necessary to ascertain the share in the firm that such capital will purchase. The new partner's share may be affected by other things than the amount of actual

cash that he brings in; he may bring in additional stock, or a connection that gives him a goodwill of his own; or he may bring in skill or experience that is worth something.

Goodwill in the Books.

These matters having been settled, it must then be decided how the goodwill is to be treated in the books. That treatment will depend on the method agreed between the partners for dealing with the capital brought in by the new partner. If it is decided to raise a goodwill account in the partnership books, Goodwill Account will be debited with the total agreed value of the goodwill and the Capital Accounts of the old partners credited in the same proportions as they share profits and losses, unless, of course, it is agreed that the goodwill shall be shared in different proportions. Any capital brought in by the incoming partner will be credited to his Capital Account, the assets he brings in (cash, stock, or otherwise, as the case may be) being debited. At first sight there may seem to be no connection between the goodwill and the new partner's Capital Account, but in reality he is paying for his share of the goodwill by allowing the old partners to increase their capital by the amount of the goodwill. This is probably the best method, from the new partner's point of view, of dealing with the goodwill, because all the capital he brings in goes to the credit of his own Capital Account, which is not the case under the other methods indicated below.

Another method is not to raise a Goodwill Account in the books, but to apportion any cash, etc., brought in by the new partner between (1) That which is to be his capital in the business, and (2) That which he is paying the old partners for goodwill. The amount thus paid for goodwill is really a premium paid to the old partners, the amount being credited to their Capital Accounts in such proportions as they agree, usually in the proportions in which they share profits and losses. Under such a method the entries would be to debit cash or other asset in respect of the total amount brought in by the new partner, and credit the Capital Accounts of the old partners with their respective proportions of the goodwill or premium, and the incoming partner's Capital Account with the balance. As explained above, a goodwill account is not raised. This method is not so advantageous to the incoming partner as the method previously explained, since by the present method some of the cash or other asset that he brings in goes to the credit of the Capital Accounts of the other partners.

There is still another method of dealing with goodwill. This method is much the same as the one last explained, but the amount representing the goodwill or premium is not brought into the

This Indenture

made the *thirteenth* day of *September*

19.. Between *James Smith* of *395 Slope Street Ipswich in the county of Suffolk* of the one part and *Thomas Jones* of *521 Right Place Colchester in the county of Essex* of the other part

Whereas the said *James Smith* and *Thomas Jones* have agreed to become partners in the trade or business of coal merchants as hereinafter mentioned for the term and subject to the conditions hereinafter contained

Now this Indenture witnesseth that in pursuance of the said agreement each of the said parties doth hereby covenant with the other as follows:—

- 1 The said *James Smith* and *Thomas Jones* shall become and remain partners in the trade or business of *Coal Merchants* for the term of *seven* years from the date hereof if both of them shall so long live.
- 2 The business of the partnership shall be carried on under the style or firm of *Smith and Jones* at *395 Slope Street Ipswich aforesaid* or at such other place or places as the partners shall from time to time determine.
- 3 The capital of the partnership shall consist of the sum of £ 5,000 to be brought in by the partners in the following proportions namely the sum of £ 3,000 by the said *James Smith* and the sum of £ 2,000 by the said *Thomas Jones* and the partners shall be entitled to the capital of the partnership in the same proportions and each partner shall be entitled to receive interest at the rate of £5 per cent. per annum payable half-yearly from the commencement of the partnership on the amount of capital so brought in by him as aforesaid. Any money or its equivalent brought into the partnership by either partner in excess of the aforesaid amounts of £3,000 and £2,000 respectively shall be considered a loan by the partner bringing in such excess, and he shall be entitled to receive interest at the said rate of £5 per cent. per annum payable half-yearly and to commence from the date of the advance on all such sums which he may so advance to the partnership. The said capital and loans and the profits arising therefrom (including the premiums to be paid for any apprentice or apprentices to be taken by either of the partners) shall (subject as hereinafter mentioned) be employed in the said business.
- 4 The bankers of the partnership shall be *the Eastern Counties Bank Limited* or such other bankers as the partners shall agree to appoint and all moneys of the partnership not required for current expenses shall be paid into the bank to the credit and on account of the firm.
- 5 The rent of the partnership premises and all rates taxes payments for insurance cost of repairs and alterations and other outgoings whatsoever in respect of the same and the wages and remuneration of all persons employed in the business and the travelling expenses incurred by the partners in connection with the business and all other outgoings expenses debts liabilities and losses (including any loss of capital) incurred in the course of the business and all interest payable to either partner on any capital now brought in or hereafter to be advanced by him shall be paid and discharged out of the gross receipts and out of the capital of the partnership or in case the same shall be insufficient for the purpose by the partners in the proportions in which they are entitled to share in the net profits of the partnership.
- 6 Each partner shall during the partnership employ himself diligently in the business of the partnership and shall carry on the same to the greatest advantage of the firm.
- 7 Each partner shall be entitled to have *four* weeks' holiday in each year In the first year of the partnership the said *James Smith* shall have the first choice of the time or times at which he will take his holiday and in the second year of the partnership the said *Thomas Jones* shall have the like choice and so on alternately during the continuance of the partnership.
- 8 Neither partner shall during the continuance of the partnership engage either directly or indirectly in any business other than the business of the partnership except with the previous consent in writing of the other partner.
- 9 No clerk traveller shopman apprentice or servant shall be engaged or be employed in the business or be dismissed from the business by either partner without the consent of the other partner.
- 10 Neither partner shall on account of the firm purchase goods or make contracts whereof or whereunder respectively the price or the liability incurred shall exceed the sum of £ 20 without the consent of the other partner and if either partner shall do so the other partner shall have the option of adopting or of repudiating the purchase or the contract on behalf of the firm and if he shall repudiate the same the purchasing or contracting partner shall solely

DATED 30TH SEPTEMBER, 19..

JAMES SMITH

TO

THOMAS JONES

Articles of Partnership.

bear and discharge and indemnify the firm the partnership property and the other partner against all liability thereunder but subject thereto may take the benefit thereof as his separate property.

- 11 Neither partner shall lend any of the moneys or deliver upon credit any of the goods of the partnership to any person or persons after he shall have been requested in writing by the other partner not to do so or without the consent of the other partner and except when in the ordinary course of business the contrary shall be unavoidable compound release or discharge any debt or security which shall be owing or belonging to the partnership or draw or accept any bill of exchange or promissory note on account of the firm and if either partner shall do so he shall (as the case may be) forthwith pay to the firm the full amount or value of the money so lent or the goods so delivered or the debt or security so released or discharged the loss incurred by the firm by reason of such composition or solely bear and discharge and indemnify the firm the partnership property and the other partner against all liability under such bill or note.
- 12 Neither partner shall without the consent in writing of the other enter into any bond or become bail surety or security for any person or persons or corporation or subscribe any policy of insurance.
- 13 All contracts and engagements entered into by the partners on account of the partnership and all cheques drafts upon bankers bills of exchange promissory notes and other securities receipts and other evidence relating thereto shall be made given and taken respectively in the name of the firm.
- 14 The partners shall keep or cause to be kept proper books of account and proper entries shall be made therein of all moneys received and paid and of all the sales purchases contracts engagements transactions and property of the partnership and of all other matters of which accounts or entries ought to be kept or made according to the usual and regular course of the business and the said books of account and all deeds securities bills and papers belonging to the partnership shall be kept at the counting house at 395 Slope Street or at such other place of business of the partnership as the partners shall agree upon and each partner shall have free access at all times to examine and to take copies of the same.
- 15 On the 31st day of March in the year 1911 and on the 31st day of March in every succeeding year a general account shall be taken by the partners of all the receipts payments sales purchases transactions and engagements of the partnership during the then preceding year and of all the capital stock-in-trade property engagements and liabilities for the time being of the partnership and in taking such account a just valuation shall be made of all particulars requiring and capable of valuation and the said general account shall immediately after the same shall have been taken be written into two books and be signed in each such book by each of the partners and after such signature each partner shall keep one of the said books and shall be bound by every such account except that if any manifest error to the amount of £ 50 or upwards shall be found therein by either partner and signified to the other partner within six calendar months next after the signing thereof by both of them such error shall be rectified.
- 16 The partners shall be entitled to the net profits of the said business (after paying all expenses and interest on capital as set out in clauses 3 and 5 hereof) in the following proportions the said James Smith to three fifth parts thereof and the said Thomas Jones to the remaining two fifth parts thereof and the same shall be carried to their credit respectively in the books of the partnership immediately after every such annual account as aforesaid shall have been taken and signed and may be drawn out at pleasure.
- 17 The said James Smith shall be at liberty to draw out of the profits of the business for his own use (in anticipation of his share in the net profits) any sum not exceeding the sum of £ 3 per week and the said Thomas Jones shall be at liberty so to draw out of the said profits for his own use any sum not exceeding the sum of £ 2 per week but if at the end of any year of the partnership it shall appear upon taking the general account that the amount which either partner is entitled to receive for interest on capital brought in or advanced by him and his share for that year of the net profits of the business is less than the total amount which he shall have drawn out in pursuance of this clause during that year he shall forthwith repay to the partnership the difference between the amount so drawn out by him and the amount which he is entitled to receive as aforesaid.
- 18 Within six calendar months after the expiration of the partnership otherwise than by the death of either partner a general account shall be taken by the partners of all the capital property engagements and liabilities of the partnership and immediately after such last mentioned account shall have been so taken and settled the partners shall forthwith make due provision for the payment of the debts and meeting all other liabilities of the partnership and subject thereto the capital of the partnership shall be divided between the partners in the proportions in which they shall be entitled to the same and the residue of the property of the partnership shall be divided between the partners in the

proportions in which they are entitled to the net profits of the partnership and all such deeds or instruments in writing shall be executed by the partners respectively for facilitating the getting in of the debts due to the partnership and for vesting the various parts or particulars of the partnership property in the partners to whom the same respectively shall upon such division belong and for releasing to each other all claims on account of the partnership and otherwise as are usual in similar cases.

- 19 If either partner shall die during the partnership his executors or administrators shall be entitled to—
- (1) The amount of the sum brought in and any further advances made by him to the capital of the partnership
 - (2) The amount of what shall be due to him for interest unpaid thereon up to the day of his death
 - (3) The amount if any ascertained or to be ascertained by the annual account which was or should have been or should be taken on the annual account day next before his death or if he shall die on some annual account day on the day of his death to be due to him for his share in the net profits of the business and remaining at the time of his death unpaid to or not drawn upon by him
 - (4) If he shall die on any other day than an annual account day an allowance in lieu of net profits equal to interest at the rate of £ 5 per cent. per annum on the amount of his aforesaid share in the capital of the partnership to be calculated if he shall die before the first annual account day from the commencement of the partnership and if he shall die after that day then from the annual account day next before his death And the said executors or administrators shall give credit for all sums drawn out by him since the commencement of the partnership or the last annual account day as the case may be.

The amounts to which the said executors or administrators shall be so entitled for interest on capital and share of and allowance in lieu of net profits shall be paid to them by the surviving partner on demand but the amount to which they shall be entitled for the deceased partner's said share in the capital of the partnership shall be paid to them by the surviving partner by three equal instalments to be payable together with interest thereon at the rate of £5 per cent. per annum from the date of the death in the manner following (that is to say) the first of such instalments with the interest then due thereon and on the principal amount then remaining unpaid at the expiration of six calendar months after the death the second of such instalments with the interest then due thereon and on the principal amount then remaining unpaid at the expiration of twelve calendar months after the death and the third of such instalments with the interest then due thereon at the expiration of eighteen calendar months after the death And the payment of the said instalments and interest shall be secured by the bond of the surviving partner in a sum of double the amount of the principal money to be paid conditioned to be void on payment of the said instalments and interest in manner aforesaid And subject to the rights by this 19th clause of these presents secured to the said executors or administrators the whole of the property (including the goodwill) of the partnership shall as from the day of such death belong to the surviving partner and all the liabilities of the partnership shall as from that day be discharged by the surviving partner And all such assurances releases and instruments shall be executed by the said executors or administrators and the surviving partner respectively as shall be necessary or expedient to vest all the property of the partnership in the surviving partner alone and otherwise to give effect to the provisions of this clause and amongst other instruments a bond in a sufficient and reasonable penalty shall be executed to the said executors or administrators by the surviving partner his executors or administrators for indemnifying the heirs executors or administrators estate and effects of the deceased partner against all the liabilities of the partnership at or after such death and all actions proceedings expenses claims and demands on account of the same.

- 20 Whenever any difference or dispute shall arise between the parties hereto or their respective executors or administrators touching these presents or anything herein contained or provided for or the operation hereof or any of their respective rights duties or liabilities hereunder or under the partnership hereby constituted or otherwise in connection with the premises the matter in difference or dispute shall be referred to two arbitrators or their umpire one of such arbitrators to be appointed by each party pursuant to and so as with regard to the mode and consequences of the reference and in all other respects to conform to the provisions in that behalf of the Arbitration Act 1889 or any subsisting statutory modification thereof.

In witness whereof the said parties to these presents have hereunto set their hands and seals the day and year first above written.

Signed Sealed and Delivered by the
above-named in the presence of
Alfred Robinson
294 Legal Square
Ipswich
Solicitor.

John Smith

L.S.

Thomas Jones

L.S.

business, but is shared amongst the old partners personally outside the business. Consequently it does not appear in the firm's books. Under such a method the entries would be to debit cash and credit the new partner's Capital Account with the amount of the capital he brings in to the business. The amount of the premium is not entered in the books, being, as explained above, paid into the private accounts of the old partners. If, however, as sometime happens, the amount of the premium is paid temporarily into the firm's banking account, and immediately afterwards drawn out by the old partners in the proportions agreed, the entries would be to debit cash with the full amount paid in by the incoming partner, and credit the Capital Accounts of the old partners with the proportions of the premium as agreed, and the Capital Account of the new partner with the balance. Then when the amount of the premium is withdrawn, debit the old partners' Capital Accounts and credit cash.

Where the old concern consists of a sole proprietor, any of the three methods outlined above can be adopted, but the entries will be simplified for the reason that the whole of the goodwill (or premium) will go to the sole proprietor, and the necessity for apportionment will not arise.

Illustration : First Method.

Dodd and Carr are in partnership, sharing profits and losses two-thirds and one-third respectively, and their position is as shown by the following Balance Sheet—

DODD & CARR—BALANCE SHEET

	£	£		£
Sundry Creditors		750	Plant and Machinery	600
Capital Accounts			Stock	2,400
Dodd	2,200		Sundry Debtors	800
Carr	1,100	3,300	Cash	250
		<u>£4,050</u>		<u>£4,050</u>

It was agreed that Dunn should be admitted as a partner on the following terms : Goodwill to be valued at £900, and a goodwill account to be opened in the books ; stock to be written down by 10 per cent ; the other figures to be as shown in the Balance Sheet. Dunn was to bring in £1,300 in cash as his capital, and to receive one-fourth of the profits, the old partners to take the same proportions as previously.

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	Dr.	£	s.	d.	£	s.	d.
Goodwill Account		900	—	—			
To Capital Adjustment A/c					900	—	—
For Goodwill as valued							
Capital Adjustment A/c	Dr.	240	—	—			
To Stock A/c					240	—	—
For Depreciation as agreed— 10% of £2,400							
Capital Adjustment A/c	Dr.	660	—	—			
To Sundries— Dodd, Capital A/c, $\frac{2}{3}$ rd					440	—	—
Carr do. $\frac{1}{3}$ rd					220	—	—
For transfer of balance on Capital Adjustment A/c, representing balance of good- will after writing off depre- ciation on stock							

LEDGER

DODD—CAPITAL ACCOUNT

Dr.			£	s.	d.			£	s.	d.	Cr.
To Balance	c/d		2,640	—	—	By Opening Balance		2,200	—	—	
						„ Capital Adjustment A/c		440	—	—	
			<u>£2,640</u>	—	—			<u>£2,640</u>	—	—	
						By Balance	b/d	2,640	—	—	

CARR—CAPITAL ACCOUNT

			£	s.	d.			£	s.	d.
To Balance	c/d		1,320	—	—	By Opening Balance		1,100	—	—
						„ Capital Adjustment A/c		220	—	—
			<u>£1,320</u>	—	—			<u>£1,320</u>	—	—
						By Balance	b/d	1,320	—	—

DUNN—CAPITAL ACCOUNT

			£	s.	d.
By Cash			1,300	—	—

Dr.		CASH ACCOUNT						Cr.		
To Opening Balance		£	s.	d.		By Balance	c/d	£	s.	d.
„ Dunn, Capital A/c		250	—	—				1,550	—	—
		1,300	—	—						
		£1,550	—	—				£1,550	—	—
To Balance	b/d	1,550	—	—						

SUNDRY CREDITORS

						By Balance		£	s.	d.
								750	—	—

PLANT AND MACHINERY

To Balance		£	s.	d.						
		600	—	—						

STOCK

To Opening Balance		£	s.	d.		By Capital Adjustment A/c	c/d	£	s.	d.
		2,400	—	—		„ Balance		240	—	—
								2,160	—	—
		£2,400	—	—				£2,400	—	—
To Balance	b/d	2,160	—	—						

SUNDRY DEBTORS

To Balance		£	s.	d.						
		800	—	—						

GOODWILL ACCOUNT

To Capital Adjustment A/c		£	s.	d.						
		900	—	—						

CAPITAL ADJUSTMENT ACCOUNT

To Stock A/c		£	s.	d.		By Goodwill A/c		£	s.	d.
„ Dodd, Capital A/c		240	—	—				900	—	—
„ Carr		440	—	—						
		220	—	—						
		£900	—	—				£900	—	—

DODD, CARR & DUNN—BALANCE SHEET

Sundry Creditors		£	s.	d.		Goodwill		£	s.	d.
Capital Accounts—		750	—	—		Plant and Machinery		900	—	—
Dodd	£2,640					Stock, less Depreciation		600	—	—
Carr	1,320					Sundry Debtors		2,160	—	—
Dunn	1,300					Cash		800	—	—
								1,550	—	—
		5,260	—	—						
		£6,010	—	—				£6,010	—	—

The partners in the new firm will share profits and losses in the following proportions; 2, 1, 1 (i.e. Dodd, $\frac{1}{2}$; Carr, $\frac{1}{4}$; Dunn, $\frac{1}{4}$).

Illustration : Second Method.

Assume that Dodd and Carr are in partnership, and that their position is as shown by the Balance Sheet given under the first method above. It was agreed that Dunn should be admitted into partnership on the following terms : Dunn to pay a

premium of £900 to the existing partners (the said £900 to remain in the business), and in addition to bring in £1,300 in cash as capital. Stock was to be written down by 10 per cent ; the other figures to be as shown by the Balance Sheet. Profits and losses were to be shared as in the previous illustration.

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Sundries	Dr.	£	s.	d.	£	s.	d.
To Stock A/c					240	—	—
Dodd, Capital A/c, $\frac{2}{3}$ rds		160	—	—			
Carr do. $\frac{1}{3}$ rd		80	—	—			
For depreciation as agreed— 10% on £2,400.							

LEDGER

Dr.		DODD—CAPITAL ACCOUNT						Cr.		
To Stock, $\frac{2}{3}$ rds Depreciation		£	s.	d.				£	s.	d.
„ Balance	c/d	160	—	—	By Opening Balance			2,200	—	—
		2,640	—	—	„ Cash, $\frac{2}{3}$ rds of Premium paid by Dunn			600	—	—
		£2,800	—	—				£2,800	—	—
					By Balance	b/d		2,640	—	—

CARR—CAPITAL ACCOUNT

To Stock, $\frac{1}{3}$ rd Depreciation		£	s.	d.	By Opening Balance		£	s.	d.
„ Balance	c/d	80	—	—	„ Cash, $\frac{1}{3}$ rd of Premium paid by Dunn		1,100	—	—
		1,320	—	—			300	—	—
		£1,400	—	—			£1,400	—	—
					By Balance	b/d	320	—	—

DUNN—CAPITAL ACCOUNT

					By Cash		£	s.	d.
							1,300	—	—

CASH ACCOUNT

To Opening Balance		£	s.	d.	By Balance	c/d	£	s.	d.
„ Dodd, Capital A/c, $\frac{2}{3}$ rds Premium paid by Dunn		250	—	—			2,450	—	—
„ Carr, Capital A/c, $\frac{1}{3}$ rd Premium paid by Dunn		600	—	—					
„ Dunn, Capital A/c		300	—	—					
		1,300	—	—			£2,450	—	—
		£2,450	—	—					
To Balance	b/d	£2,450	—	—					

SUNDRY CREDITORS

					By Balance		£	s.	d.
							750	—	—

PLANT AND MACHINERY

To Balance		£	s.	d.					
		600	—	—					

also calls for special treatment. These two points will be dealt with later. At present we have to deal with the special features of partnership book-keeping during the currency of the partnership.

Separate Capital Accounts.

A separate Capital Account must be kept for each partner, which must be debited with the

Interest on Capital and on Drawings, etc.

If it is agreed that interest is to be allowed on capital, it is usually charged on the balance at the beginning of the accounting period, the entries (which should be made through the Journal) being : debit Interest Account and credit Capital Account. If interest is to be charged on drawings, it is calculated on each amount drawn out from the date it is drawn to the end of the accounting



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A SHOWROOM

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amount the partner draws out of the business and with his share of the losses (if any), and credited with any fresh capital he may bring in and with his share of the profits. The Capital Account also will be debited with interest on drawings and credited with interest on capital, if allowed by the partnership agreement. The debits and credits to the Capital Accounts may, if desired, be made direct to such accounts, but it is customary to enter the details in special accounts (called variously Drawing Accounts, Current Accounts, etc.), and transfer the totals or balances of such accounts to the Capital Accounts.

period, the entries (which should be made through the Journal) being : debit Capital Account and credit Interest Account.

Partners' Salaries.

If salaries are paid to the partners or any of them, the entries, if the salaries are drawn out in cash, would be : credit Cash and debit Salaries Account in the Nominal Ledger. If the salaries are not drawn out in cash, the entries (which should be made through the Journal) would be : debit Salaries Account and credit Capital Accounts of the partners to whom the salaries are due.

CHAPTER IV

THE ACCOUNTS OF A PARTNERSHIP

(c) Dissolution of Partnership

ON the retirement or death of a partner, the share of the retiring or deceased partner in the business must be valued; and to arrive at the value of such share it is necessary to assess the value of the goodwill. This value having been ascertained, the Capital Account of the retiring or deceased partner has to be credited with the amount. The accounts are then closed in the ordinary way, and a Balance Sheet prepared; and the total amount standing to the credit of the retiring or deceased partner is then paid over to the retiring partner or the deceased partner's legal personal representative. If it is possible to pay out this amount in cash, the entries are simple, Cash Account being credited and the Capital Account debited. It is seldom, however, that a firm is in such a position that it can pay out such an amount in ready cash, and it is usual to make arrangements to pay off the amount by instalments. There are several methods of carrying out such an arrangement, and the entries will depend on the method adopted. The simplest method is to transfer the balance on the retiring or deceased partner's Capital Account to a Loan Account by means of a Journal entry. This Loan Account will usually carry interest, the

amount of the interest being debited, of course, to the firm's Interest Account.

Illustration.

A and B are partners, sharing profits and losses equally. It is agreed that on the death of either partner, the deceased partner's account shall be credited with goodwill, valued on the basis of two years' purchase of the average net profits for the last four years, and that the deceased partner's share in the business shall be paid to his legal personal representative in yearly instalments of £1,000 on the 31st December, with interest at 5 per cent per annum on the outstanding balance, with yearly rests. B dies on 31st December, 1922. The balance to the credit of his Capital Account on that date is £2,000, before allowing for drawings and share of profits. For the year 1922 B's drawings amounted to £600. The profits for the last four years were: 1919, £800; 1920, £1,000; 1921, £1,200; 1922, £1,300. Ascertain the value of the goodwill and show the Ledger accounts for B's estate.

The goodwill is arrived at as follows—

Profits for year 1919	£	800
" " " 1920	£	1,000
" " " 1921	£	1,200
" " " 1922	£	1,300
		<u>4,400</u>
Average	£	1,075 × 2 = £2,150

Dr.		B (DECEASED) CAPITAL ACCOUNT										Cr.		
1922						1922								
Dec. 31	To Drawings			£	s.	d.	Dec. 31	By Balance	b/d		£	s.	d.	
	" Balance	c/d		600	—	—		" $\frac{1}{2}$ share of profits for			2,000	—	—	
				4,200	—	—		year 1922			650	—	—	
					—	—		" Goodwill			2,150	—	—	
				£4,800							£4,800	—	—	
1923				£	s.	d.	1923				£	s.	d.	
Jan. 1	To Loan A/c			4,200	—	—	Jan. 1	By Balance	b/d		4,200	—	—	

Dr.			B (DECEASED) LOAN ACCOUNT								Cr.		
1923 Dec. 31	To Cash			£	s.	d.	1923 Jan. 1	By Capital A/c			£	s.	d.
	„ Balance	c/d		1,000	—	—	Dec. 31	„ Interest, 1 year			4,200	—	—
				3,410	—	—					210	—	—
				£4,410	—	—					£4,410	—	—
1924 Dec. 31	To Cash			£	s.	d.	1924 Jan. 1	By Balance	b/d		£	s.	d.
	„ Balance	c/d		1,000	—	—	Dec. 31	„ Interest, 1 year			3,410	—	—
				2,580	10	—					170	10	—
				£3,580	10	—					£3,580	10	—
1925 Dec. 31	To Cash			£	s.	d.	1925 Jan. 1	By Balance	b/d		£	s.	d.
	„ Balance	c/d		1,000	—	—	Dec. 31	„ Interest, 1 year			2,580	10	—
				1,709	10	6					129	—	6
				£2,709	10	6					£2,709	10	6

Dr.			B (DECEASED) LOAN ACCOUNT— <i>contd.</i>						Cr.		
1926 Dec. 31	To Cash	c/d	£. 1,000 795	s. — —	d. — —	1926 Jan. 1	By Balance	b/d	£. 1,709 85	s. 10 9	d. 6 6
	„ Balance					Dec. 31	„ Interest, 1 year				
			£1,795	—	—				£1,795	—	—
1927 Dec. 31	To Cash		£ 834	s. 15	d. —	1927 Jan. 1	By Balance	b/d	£ 795	s. —	d. —
						Dec. 31	„ Interest, 1 year				
			£834	15	—				£39	15	—
									£834	15	—

In some cases a firm will take out survivorship assurance policies on the lives of the partners to assure a certain sum of actual cash with which to pay out a deceased partner's share in the partnership; and similarly an endowment policy can be taken out to provide funds to pay out a retiring partner.

The Partnership Act and Dissolution of Partnership.

The Partnership Act, 1890, provides that in the absence of agreement to the contrary, losses on dissolution as between the partners shall be paid in the following order—

1. First, out of profits.
2. Secondly, out of capital.
3. Lastly, by the partners individually, out of their private assets, in the proportions in which they were entitled to share the profits. But the private assets of the partners are not available until all the private creditors have been paid in full.

The Act provides also that the assets of a firm are to be applied on realization, as follows—

1. In payment of debts due to persons who are not partners.
2. In repayment of loans made by the partners to the firm.
3. In repayment of partner's capital.
4. The surplus (if any) to be divided amongst the partners in the proportion in which profits are shared.

When a partnership is to be dissolved the assets should be realized and the debts paid out of the proceeds, the balance then being distributed amongst the partners, each of whom will receive the amount standing to the credit of his Capital Account.

Realization of Assets.

A Realization Account should be opened in the books, and the balances on the accounts of the assets to be sold should be transferred to the debit of the Realization Account. As the assets are sold the proceeds will be entered on the debit side of the Cash Book and on the credit side of the Realization Account. If one of the partners

should take over any of the assets, his Capital Account should be debited and Realization Account credited with the agreed value. All amounts expended in the realization of the assets should be debited to Realization Account as costs of realization. After all the assets have been realized, the balance on the Realization Account will represent the profit or loss on the realization; a debit balance representing a loss and a credit balance a profit. This balance should be transferred (by means of a Journal entry) to the Capital Accounts of the partners in the proportions in which they share profits and losses.

Distribution of the Partnership Assets.

The proceeds of the realization of the assets should now be applied in paying the debts of the partnership, and otherwise in the order set out above. If after closing the Realization Account and transferring the balance to the Capital Accounts of the partners, any of such Capital Accounts should show a debit balance, the partner concerned must pay into the firm's account the amount of such debit balance. In such a case, Cash Account would be debited and the Capital Account credited, the Capital Account thus being closed. If a partner who has a debit balance on his capital should be a creditor for money lent to the firm, the debit balance on his Capital Account may be transferred to the debit of his Loan Account, by means of a Journal entry.

The only amounts now outstanding in the partnership books will be the balances on Cash and Capital Accounts, and the amount of the debit balance on the Cash Account should exactly equal the total of the credit balances on the Capital Accounts. The cash balance should then be distributed amongst the partners, each receiving the amount standing to the credit of his Capital Account. The Cash Account will be credited and the Capital Accounts debited, these entries closing the partnership books.

Illustration.

Murphy and Jepson are in partnership, profits and losses being shared in the proportions of

three-fourths and one-fourth respectively. They decide to dissolve partnership as on the 31st December, 19.., their position on that date being as shown in the following Balance Sheet.

MURPHY & JEPSON
BALANCE SHEET AS AT 31ST DECEMBER, 19..

	£	£		£
Sundry Creditors	3,000		Lease	800
Bank Overdraft	1,200		Plant and Machinery	1,300
Capital Accounts—			Furniture and Fittings	400
Murphy	1,200		Stock	2,300
Jepson	900		Sundry Debtors	1,500
	2,100			
	£6,300			£6,300

The proceeds of the assets on realization were as follows—

Lease	£900
Plant and Machinery	1,000
Stock	1,800

The furniture and fittings were taken over by Murphy at an agreed value of £200. £1,350 was collected from the sundry debtors, the balance being irrecoverable. The costs of the realization were £95.

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	£	s.	d.	£	s.	d.
Realization A/c Dr.	6,300	—	—			
To Sundries—						
Lease			800	—	—	—
Plant and Machinery			1,300	—	—	—
Furniture and Fittings			400	—	—	—
Stock			2,300	—	—	—
Sundry Debtors			1,500	—	—	—
For disposable assets transferred to Realization A/c.						
Murphy Capital A/c Dr.	200	—	—			
To Realization A/c			200	—	—	—
For agreed value of Furniture and Fittings taken over by Murphy.						

LEDGER

Dr.

MURPHY—CAPITAL ACCOUNT

Cr.

	£	s.	d.		£	s.	d.
To Realization A/c—				By Opening Balance .	1,200	—	—
Furniture and Fittings	200	—	—				
„ Realization A/c—							
½th loss on realization	858	15	—				
„ Cash	141	5	—				
	£1,200	—	—		£1,200	—	—

JEPSON—CAPITAL ACCOUNT

	£	s.	d.		£	s.	d.
To Realization A/c				By Opening Balance .	900	—	—
½th loss on realization	286	5	—				
„ Cash	613	15	—				
	£900	—	—		£900	—	—

CHAPTER V

NAMES ADOPTED FOR BUSINESS PURPOSES

By DR. R. W. HOLLAND

THE choice of a name under which a business is to be carried on is usually a matter of great importance particularly to the wholesale trader. There is no limit laid down by law except that it is not usual for a private concern to use such words as "Imperial," "Royal," and the like in connection with their enterprise; in fact, such words are not allowed without consent, in the case of limited liability companies. There is nothing in the law to prevent a person or persons commencing business under the title of "The Empire Motor Works," "The Excelsior Boot Repairing Company," "The Bon Marché," or "The Little Wonder Drapery Stores," nor is it illegal for a person of the name of Elizabeth Jones to commence to trade as a dressmaker and milliner under the name "Madam Elise." Again, the law does not require that a person shall trade in his own name, nor that a person shall refrain from trading because his name is similar to that of a well-known business establishment. Nothing can prevent a person by the name of Gorrings from setting up a business establishment, provided that in so doing he does not in any way represent that he is or has connections with the famous firm of that name in the south-west of London. A person buying a business, therefore, may continue to run that business under the old name and by so doing he incurs no risks. There is a well-known maxim of law which provides that in exercising one's legal rights, conduct likely to interfere with the rights of others should not be indulged in; hence, if a trader continues to trade under the name of the former proprietor of the business he must do it in such a manner that the public are not misled. If his manner of carrying on business, his sign over the shop and his advertising represent to the world that the former proprietor is still

Dr.		REALIZATION ACCOUNT			Cr.	
		£	s.	d.		
To Sundry Assets—					By Cash—Lease	£ 900
Lease	£800				" " Plant & Machinery	1,000
Plant and Ma-					" " Stock	1,800
chinery	1,300				" " Sundry Debtors	1,350
Furniture and					" Murphy, Furniture and	
Fittings	400				Fittings	200
Stock	2,300				" Balance, Loss carried to	
Sundry Debtors	1,500				Capital A/cs—	
" Cash, Costs of realization		6,300	—	—	Murphy $\frac{3}{4}$ ths	£ 858 15
		95	—	—	Jepson $\frac{1}{4}$ th	286 5
						1,145
		£6,395	—	—		£6,395

BANK ACCOUNT

	£	s.	d.		£	s.	d.
To Realization A/c—				By Balance, Overdraft	1,200	—	—
Sale of Lease	900	—	—	Costs of Realization	95	—	—
" Plant & Machinery	1,000	—	—	" Sundry Creditors	3,000	—	—
" Stock	1,800	—	—	" Murphy, Capital A/c	141	5	—
" Sundry Debtors	1,350	—	—	" Jepson do.	613	15	—
	£5,050	—	—		£5,050	—	—

LEASE ACCOUNT

	£	s.	d.		£	s.	d.
To Opening Balance	800	—	—	By Realization A/c	800	—	—

PLANT AND MACHINERY ACCOUNT

	£	s.	d.		£	s.	d.
To Opening Balance	1,300	—	—	By Realization A/c	1,300	—	—

FURNITURE AND FITTINGS ACCOUNT

	£	s.	d.		£	s.	d.
To Opening Balance	400	—	—	By Realization A/c	400	—	—

STOCK ACCOUNT

	£	s.	d.		£	s.	d.
To Opening Balance	2,300	—	—	By Realization A/c	2,300	—	—

SUNDRY DEBTORS

	£	s.	d.		£	s.	d.
To Opening Balance	1,500	—	—	By Realization A/c	1,500	—	—

SUNDRY CREDITORS

	£	s.	d.		£	s.	d.
To Cash	3,000	—	—	By Opening Balance	3,000	—	—

concerned in the business, he is doing the former proprietor an injury and in this he can be restrained. Again, if in using his own name he does it in such a manner that the public believe that his business is really that of another, that other person could call upon the law to interfere.

Registration of Business Names.

The foregoing is still the law of the land in spite of the passing of the Registration of Business

Names Act, 1916, which has not altered a person's rights in this direction but has merely made it impossible for anyone to carry on business under an assumed or fancy name without disclosing to the world, or at any rate to those interested, who the proprietors of the business really are. The necessary forms for registration can be obtained from the Registrar of Business Names, Clement's Inn, London, W.C.2, and every firm having a place of business in the United Kingdom must register if—

(1) The firm name does not consist of the true surnames of all partners who are individuals and the corporate name of any partner which is a corporation without any addition save the true



Photo

Kealeys, Ltd.

A CONFECTIONERY SHOP
(Stanley Lambert, Chocolatier)

Names Act, 1916, which has not altered a person's rights in this direction but has merely made it impossible for anyone to carry on business under an assumed or fancy name without disclosing to the world, or at any rate to those interested, who the proprietors of the business really are. The matter is of great importance in relation to carrying on business in partnership. Thus, Brown Brothers of Pimlico, founded in 1840, may contain to-day no members of the family Brown; it may be run by nephews of the original founders or even by strangers and in any case registration is required. In a similar manner the "Excelsior Motor Engineering Company," bearing

Christian names or initials of the individuals who are partners; or

(2) A partner has changed his name unless such change takes place through the marriage of a woman partner.

To the layman this seems complicated. Suppose the firm of Brown & Smith consists of William Smith and John Brown as partners, if the firm name is Smith & Brown, or W. Smith and J. Brown, no registration is necessary, but if the firm name is Brown, Smith & Company there is an addition of the words "& Company," and registration is necessary. It will, of course, be unusual for a corporate body such as a limited company to be in partnership

with an individual, but it is quite possible, and if in a certain branch of business Richard Robinson enters into partnership with Smith Brothers, Limited, the name Smith Brothers, Limited, & Robinson would preserve the business from requiring registration, but, of course, as Smith Brothers, Limited, is already registered as a company and as the name must appear on all places of business and all documents issued by or on its behalf, nothing would be gained by avoiding registration.

If the Misses Brown and Williams carry on business as milliners under their joint names, and Miss Williams continues in business after marriage, the mere fact that she is now Mrs. Johnson will not cause the firm of Misses Brown and Williams to require to register its name, but if the firm had been Misses Einstein and Williams, the fact that Miss Einstein changes her name to Iastone will make it necessary that the business name should be registered. Registration under the Business Names Act was a War measure, but it has been continued and must be complied with at the present time; in fact, failure to register may have a serious effect on the legal status and rights of the owners of the business. Thus, for example, the owners of a business cannot sue on any contract entered into by them during the time when their name remains unregistered. In a proper case the court can give exemption from this penalty but a firm that should be registered but is not, could not, without such exemption, recover debts in the county court. On the other hand, if an action be brought against such a firm failure to register under the Business Names Act would not deprive the firm of any defences and even a counter claim could be set up.

Particulars Required.

The particulars required by the Registrar are—

(1) The business name, the general nature of the business and the address of the principal place where the business is carried on.

(2) The present Christian name and surname of every individual partner and any former Christian name or surnames; the nationality of every partner and in the case of a change in nationality, the nationality of origin.

(3) The usual address and any other occupation of each partner.

(4) Where a corporation is a partner, its corporate name and registered office.

From time to time any change in the firm's constitution must be registered.

Liability does not cease with registration and although the register is open for inspection, publicity goes much further: particulars of the names and nationality of the partners must be given on all trade circulars, trade catalogues, show cards and business letters. This requirement is reasonable and is intended to give full information to persons dealing with the firm so that they may know with whom they are dealing. From the foregoing it will be seen that although persons may carry on business within the limitations set out above under any name they may choose, there are serious drawbacks to adopting any name other than a name descriptive of the individual partners.

The use of "& Co."

In the case of a partnership or even a sole trader there is no limitation to the use of the words "and company." Subject to registration, John Brown, in trade alone may call his business "Brown & Company," without infringing any person's rights and it is quite usual for persons in partnership to add on the expression "& Co." to the firm name. It is not a representation of limited liability or incorporation, as the Companies Acts require the word "Limited" to be added where the business is carried on with limited liability. In other words, "and company" is not a technical expression, but "and company, limited" is. The latter must not be used by any person or body of persons unless registered under the Companies Acts.

SECTION 47

How to Form a Limited Company

By D. G. HEMMANT, of the Inner Temple, Barrister-at-Law

CHAPTER I

INTRODUCTORY

THIS section is intended to explain the constitution of a limited company and to describe the various steps which have to be taken in the formation and registration of a company under the Companies Acts. It is, however, first proposed to point out briefly a few of the advantages of a limited company and the main differences between a company and an ordinary partnership.

Difference between Limited Company and Partnership.

The principal difference between a limited company and an ordinary partnership is that in the case of a company the liability of each shareholder is limited to the amount (if any) unpaid on his shares, so that if his shares are paid up in full the most that he can lose if the company should unfortunately turn out a complete failure will be the amount he has paid for his shares. There is no such limit to the liability of a partner in an ordinary firm; however big the partnership and however small the interest of a partner may be, each partner will be liable to the full extent of his assets for all the debts of the firm, and a partner cannot by any agreement with his partners limit his liability to the creditors of the partnership.

Secondly, a partnership must not consist of more than twenty persons or, if it be formed for the purpose of carrying on the business of banking, of more than ten persons. A company, on the other hand, may have any number of members, unless it is a private company, and in which case its membership, exclusive of the employee and ex-employee shareholders, must not exceed fifty.

Thirdly, in the case of a partnership every partner is entitled, subject to any agreement between the parties, to take part in the management of the partnership, and every partner is the agent of the firm and his other partners for the purposes of the partnership business; and his acts, if done in the ordinary course of business, are binding on his partners, unless he has in fact no authority to act in the particular matter, and the person with whom he is dealing either knows that he has no authority or does not know or believe him to be a partner. In the case of a

company the business is generally managed by a board of directors, and the members have no right to take part in the management, nor are they agents of the company or their acts binding on the company.

Fourthly, a member of a company can sell and transfer his shares subject to such restrictions as may be imposed by the company's regulations, and the transferee of the shares will enjoy all the rights of membership of the company. In a partnership a partner can assign his share, but the sole right of his assignee will be to receive the share of the profits to which the assigning partner could otherwise have been entitled.

Fifthly, subject to any agreement between the partners every partnership is dissolved by the death or bankruptcy of a partner; the continued existence of a company is not affected by the death or bankruptcy of any shareholder, however large may be his holding.

Lastly, a company, as will be seen later, has only such powers as are conferred on it by its constitution, and cannot extend its powers without the sanction of the Court. A partnership, on the other hand, can modify its constitution as and when the partners think fit, and is not subject to any statutory restrictions.

Advantages of Limited Company.

The above are the main differences between a company and a partnership, and it will be seen that the principal advantage of a limited company over an ordinary partnership is the limitation of the liability of the members. This is of especial importance in the case of the person who wants an investment for his money but does not want to take an active part in the management of the business.

A second advantage enjoyed by a limited company lies in its facilities for raising capital, for not only can it raise money in the same way as an individual, but it can also borrow by the issue of debentures or debenture stock, containing a floating charge over the whole of the undertaking and assets of the company. Such a charge is a well-known negotiable instrument and does not affect the credit of the borrower in the same way as a bill of sale does, and it has the further advantage that so long as the charge continues to float,

i.e. until it crystallizes or becomes fixed, the company can carry on its business and deal with its property as if the charge did not exist, while in the case of a bill of sale the borrower cannot deal with the property assigned by the bill. In addition, a company can raise money by the issue of shares, for a man is much more ready to invest his money in a concern where his liability is limited than he is to invest in a partnership, where he may become liable for all the debts and obligations of the firm.

Thirdly, members of a company can leave their shares to their children without disturbing in any way the business of the company. In the case of a partnership, as was seen above, the death of a partner, subject to any agreement between the partners, dissolves the partnership, and even if the partnership is not dissolved provision has to be made for buying the share of the deceased partner. A company is in no way affected by the death of its members, for it is a separate entity from its members, and is a body corporate with perpetual succession, and there is no obligation on the continuing members to buy the shares of a deceased member. The advantages of this both to the continuing members and to the estate of the deceased member are very considerable, for the former do not have to find possibly a large sum in cash at what may be an inconvenient moment, while the executors of the latter can hold his shares in trust for his dependents and have the same rights of membership in respect thereof as were enjoyed by the deceased member.

Fourthly, if a trader dies leaving a number of persons for whom he wishes to provide he will probably have considerable difficulty in finding trustees who will be willing to carry on his business, for they will be liable for all the debts incurred in carrying on the business, and their right to be indemnified out of the assets may not be sufficient protection for them. But if he has converted his business into a company his executors can hold his shares in trust for the beneficiaries under his will without incurring any risk or trouble, and the business can be carried on by some competent person as manager.

Finally, the articles of partnership are generally somewhat elaborate and difficult of comprehension for the layman, while the regulations of a company are, as a rule, simple and easy to understand.

It will be seen from the above that a company has many advantages over a partnership, while the latter has practically no advantages over a company except that no duty is payable on the capital invested in a partnership, and that it is exempt from payment of corporation duty and the fees payable on the registration of a company. These, however, are not excessive, and are a moderate price to pay for the limited liability which is conferred by registration under the Companies Acts,

CHAPTER II

CONVERSION OF A BUSINESS INTO A COMPANY

THE advantages of a limited company over an ordinary business or a partnership have already been discussed, and it is proposed now to consider the terms and conditions of a conversion of a business into a company and the steps which have to be taken in order to carry the conversion into effect.

The Conditions of Sale.

When conversion has been decided upon, the first thing is to settle the conditions of sale and to fix the price at which the business is to be sold. As a rule the owner of the business sells the whole of the undertaking and all the assets used in the business, including the book debts, in consideration of the allotment to the vendor of fully-paid up shares in the company and of the discharge by the company of the debts and liabilities of the business. The above is generally found the most convenient course, but it must be borne in mind that *ad valorem* stamp duty is payable on the book-debts included in the sale, and that the amount of the debts and liabilities to be paid by the company has, for the purposes of stamp duty, to be added to the consideration. If, therefore, it is desired to reduce as much as possible the amount of stamp duty payable, the vendor should retain the book-debts and use them to discharge the liabilities. In arriving at the purchase price it is not necessary to have a valuation of the vendor's business. As a rule the sale is made on the basis of the last balance sheet, but the vendors can sell at any price they think fit. It must, however, be remembered that if the company gives too high a price for the property some of the capital will be what is known as "water," with the result that the rate of dividend will be low; while if the business is sold below its real value dividends will be high and the company will expose itself to charges of profiteering, and its high rate of dividend will be calculated to cause discontent and unrest among the company's employees. It is accordingly advisable to sell the business for approximately its real value. The sale will take effect on the completion of the purchase or, as is frequently desired, it can take effect as from a past date, such as the date to which the last balance sheet of the vendors' business was made up. There is no objection to this latter course, but it must be remembered that the profits earned in the interval between such past date and the date of completion will form part of the capital assets of the company, and will not accordingly be available for dividend among the members. They can, however, be paid to the vendors as salary for managing the business during the

interim period or as interest on the purchase money.

Payment of Vendor.

When the vendor has determined what he is going to sell to the new company and at what price, the next question to be considered is the manner in which the purchase price is to be satisfied, whether in cash or fully-paid-up shares or debentures, or partly in one way and partly in another. As a rule, in the case of a conversion of a business into a private company the vendor accepts fully-paid-up shares in satisfaction of the purchase price, but it sometimes happens that the vendor wants to realize a part of his interest in his business, and in such an event he will take part of the consideration in cash. As to the shares to be allotted to him he will have to decide whether he will take preference shares carrying a fixed rate of dividend or ordinary shares, or some of one class and some of the other. If he intends to give up the active management of his business, and wants only to receive a fixed income from the concern he will take preference shares; if, on the other hand, he wants to realize a certain amount of cash and proposes to continue to manage the concern it will be better to take ordinary shares.

Memorandum and Articles.

The next point to be considered is the provisions of the memorandum and articles of association, and as to this reference should be made to later chapters.

Agreement for Sale.

When the memorandum and articles have been settled and the company has been registered, an agreement for sale should be made between the vendor and the company. This will set out the terms on which the business is being sold to the company, and should in addition contain a covenant by the vendor not to carry on business in competition with the company, and if the vendor is to act as manager or director of the company for a term of years, provisions to that effect should be inserted in the agreement for sale or, preferably, in a separate contract. (A specimen Agreement is shown as inset.)

In the case of a private company the agreement will be binding as soon as it has been executed. If shares are allotted, credited as fully or partly paid up, in satisfaction of any part of the purchase consideration, the company must file the agreement for sale with the Registrar of Companies within one month after any of the shares have been allotted or every director, manager, secretary, or other officer who is knowingly a party to the default will become liable to a fine of £50 for every day during which the default continues. If shares are allotted to nominees of the vendor it will be necessary to file, in addition to the agreement for

sale, either a supplemental agreement constituting the title of the nominees or a letter of nomination by the vendor in favour of the nominees, such nomination being stamped before execution with a 6d. stamp if the nominal amount of the shares to which the nomination relates is £5 or more, and with 1d. stamp if the nominal amount of such shares is less than £5.

Ad valorem stamp duty at the rate of £1 per cent will be payable on the contract or on the conveyance on the whole of the purchase consideration (which will include the amount of the liabilities to be discharged by the company) except on so much of it as can be apportioned to the assets on which no duty is payable, and this duty is payable even though all the shares in the company are taken by the vendor, for the company is a separate entity.

The following table shows the assets and whether or not duty is payable on them in the case of the sale of an ordinary business—

Nature of Asset.	Value.	Duty payable on Contract.	Duty payable on Conveyance or Assignment.	No Duty Payable.
	£	£	£	£
Unencumbered lands, tenements and hereditaments	10,000	—	10,000	—
Goodwill	5,000	5,000	—	—
Goods, Wares, Merchandise	10,000	—	—	10,000
Trade Marks, Patents	1,000	1,000	—	—
Book Debts	3,000	3,000	—	—
Benefit of Contracts	500	500	—	—
Cash in hand or on Current Account	500	—	—	500
	30,000	9,500	40,000	10,500

CHAPTER III

FORMATION OF A PRIVATE COMPANY

A PRIVATE company is defined by the Companies Acts as meaning a company which by its articles—

(a) Restricts the right to transfer its shares, and
 (b) Limits the number of its members (exclusive of persons who are in the employment of the company and of persons who having been formerly in the employment of the company were while in such employment and have continued after the determination of such employment to be members of the company) to fifty; and

(c) Prohibit any invitation to the public to subscribe for any shares or debentures of the company.

Kinds of Companies.

Any two or more persons associated for any lawful purpose may, by subscribing their names to

MEMORANDUM OF AGREEMENT made this 19th day of September

19

BETWEEN James Francis Mallinson of 457 The Grove Hammersmith in the County of London Gentleman (hereinafter called the Vendor) of the one part and Alfred James Thornton of 874 Chancery Lane in the County of London Surveyor as Trustee on behalf of the Company about to be formed (hereinafter called the Company) of the other part

WHEREAS the Vendor is the owner of a concession granted by the Government of the Republic of Transylvania on the 25th day of February 1910 for the construction of a line of railway within the said Republic from Whitetown to Blacktown of about 290 miles in length and is desirous of selling and transferring the same together with the works plant and material already accomplished and collected to a Company to be formed for the purpose of working the said concession and constructing the said railway

AND WHEREAS the Vendor has agreed upon the terms and conditions hereinafter mentioned to form such a Company after constituting a Preliminary Company providing for certain expenses thereof

AND WHEREAS in pursuance of the said agreement a Company to be called the Transylvanian Central Railway Promotion Company Limited is about to be formed under the Companies Acts 1908 to 1917 having for its objects among other things the acquisition of the said concession

AND WHEREAS the nominal capital of the Company is to be £16,000 divided into 15,000 Preferred Shares of £1 each and 20,000 Deferred Shares of 1s. each

AND WHEREAS by the draft Memorandum and Articles of the Company it is provided that the Company shall immediately after the incorporation adopt the agreement therein referred to being these presents

NOW IT IS HEREBY AGREED AS FOLLOWS--

1. The Vendor shall sell and the Company shall purchase all and singular the said concession and the rights and interest therein except as hereinafter reserved and the privileges granted thereunder and the works plant and material already executed and collected at the price of £100,000 payable as hereinafter provided excepting and reserving out of the lands granted by the said concession ten blocks of five hundred acres each out of the freehold government land such blocks to be selected by the Vendor or his nominees and to be transferred to the Vendor or his nominees.

2. As the consideration for the sale the Company shall pay or cause to be paid to the Vendor or his nominees £50,000 in cash and shall allot to the Vendor or his nominees 50,000 fully paid Preferred Shares in the larger Company representing the nominal value of £50,000 and shall allot or cause to be allotted to the Vendor or his nominees immediately upon the registration of the

preliminary Company 3,000 fully paid Preferred Shares of £1 each in the said preliminary Company and 20,000 fully paid Deferred Shares of 1s. each in the said preliminary Company.

3. The costs and expenses of the registration of the Company and such costs as have been incurred prior thereto shall be borne and paid by the Company including the stamp duty upon this and any preliminary agreement.

4. The Company shall provide such capital as may be necessary for the purpose of defraying the engineers' fees for the survey and report upon the railway and such part thereof as is already partly constructed and the expenses attending such examination in Transylvania and any other expenses incurred in England and elsewhere.

5. The terms and the conditions upon which the said capital shall be provided shall be left to the judgment and discretion of the preliminary Company and the reimbursement thereof shall be provided by the railway company when constituted upon the terms and conditions which shall be settled by the preliminary Company and the Vendor but out of the said capital the sum of £2,000 shall be provided by the Company as a deposit and part payment of the purchase price for the concession payable by the Company.

6. The Vendor shall be entitled to add to the said sum of £100,000 such sums as he may deem necessary for the reimbursement of himself of such expenses as he may incur in the promotion or formation and financing of the said railway and in any other transaction directly or indirectly connected therewith.

7. On payment of the said sum of £100,000 the said Vendor shall transfer to the Company the said concession and all sleepers plant works and other material already accumulated for the purpose of constructing the said railway.

8. The said deposit of £2,000 shall be paid to the Vendor or his nominees on or before the 31st day of October 1922. otherwise this agreement shall be null and void unless such time is extended by the mutual consent of the parties hereto.

9. Upon the adoption of this agreement by the Company in such manner as to render the same binding upon the Company the said Alfred James Thornton shall be discharged from all liability in respect thereof.

10. The determination of this agreement under clause 8 hereof shall not give rise to any claim for compensation expenses or otherwise.

AS WITNESS the hands of the parties hereto.

JAMES FRANCIS MALLINSON.

ALFRED JAMES THORNTON.

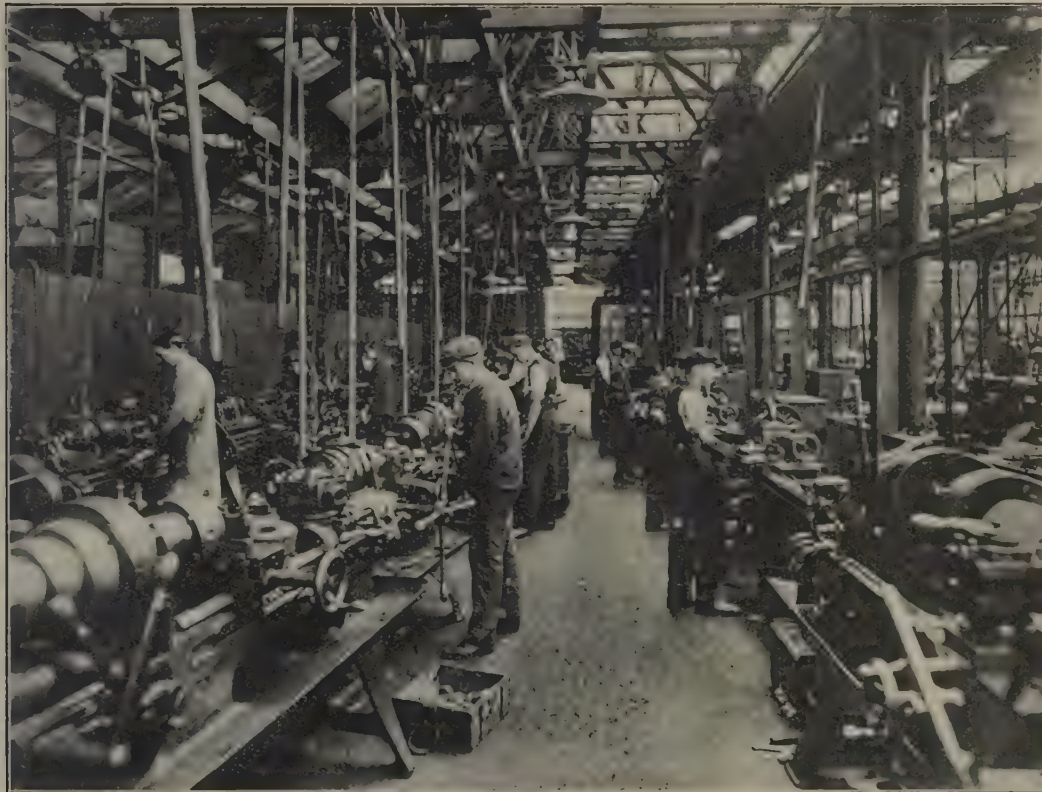
a memorandum of association and otherwise complying with the provisions of the Companies Acts as to registration, form an incorporated company, which may be either—

(a) A company limited by shares, that is, a company in which the liability of the members is limited by the memorandum to the amount (if any) unpaid on the shares held by them respectively; or

companies, provided the company has a share capital, but in fact nearly every private company is a company limited by shares, and it is proposed to deal with that kind of company first.

The Memorandum of Association.

Every company limited by shares must have a memorandum of association, which must state—



By permission

SECTION OF MACHINE SHOP
(Roneo Works)

Roneo, Ltd.

(b) A company limited by guarantee, that is, a company in which the liability of the members is limited by the memorandum to such amount as the members undertake respectively to contribute to the assets of the company in the event of its being wound up; or

(c) An unlimited company, that is, a company in which there is no limit on the liability of the members.

Company Limited by Shares.

A private company may be any of the above

(i) The name of the company with "Limited" as the last word in its name;

(ii) The part of the United Kingdom, whether England, Scotland, or Ireland, in which the registered office of the company is to be situate;

(iii) The objects of the company;

(iv) That the liability of the members is limited;

(v) The amount of share capital with which the company propose to be registered, and the division thereof into shares of fixed amount.

And the memorandum must as nearly as

the circumstances admit be in the following form—

1st. The Name of the Company is "THE EASTERN STEAM PACKET COMPANY, LIMITED."

2nd. The Registered Office of the Company will be situate in England.

3rd. The Objects for which the Company is established are—The conveyance of passengers and goods in ships or boats between such places as the Company may from time to time determine, and the doing all such other things as are incidental or conducive to the attainment of the above objects, or any of them.

4th. The Liability of the Members is Limited.

5th. The Share Capital of the Company is Two Hundred Thousand Pounds, divided into One Thousand Shares of Two Hundred Pounds each.

Name of the Company

When a company is formed to acquire an existing business the name of the vendor or his firm name is generally an asset of some value, and such name will be incorporated in the name of the company, but a company can take any name it pleases provided it is not the name of an existing company or of an individual or firm or so nearly resembling that name as to be calculated to deceive the public. Further, it must not use as part of its name, without the consent of the Home Secretary, words such as Royal, Imperial, King, Queen, or any words implying or suggesting that the company has some connection with the Government. Nor may it take the words "Red Cross" or "Geneva Cross" as part of its name without the consent of the Army Council, and if the company is formed for the purpose of carrying on business as moneylenders it must not take the word "Bank" as part of its name.

It is accordingly, as a rule, advisable to submit the proposed name to the Registrar of Companies for his approval before any great expense is incurred in printing.

Every limited company must—

(a) Paint or affix, and keep painted or affixed, its name on the outside of every office or place in which the business is carried on, in a conspicuous position, in letters easily legible;

(b) Have its name engraved in legible characters on its seal;

(c) Have its name mentioned in legible characters in all notices, advertisements, and other official publications of the company, and in all bills of exchange, promissory notes, endorsements, cheques, and orders for money or goods purporting to be signed by or on behalf of the company, and in all bills of parcels, invoices, receipts, and letters of credit of the company.

Registered Office.

Every company must have a registered office, and the part of the United Kingdom, whether England (which for this purpose includes Wales), Scotland, or Ireland, in which the registered office of the company is situate must be stated in the

second clause of the memorandum. As this clause is unalterable, it is advisable to consider carefully in which country the registered office is to be. As a rule there is no difficulty about this, but sometimes a company is formed in England to carry on business in Scotland, and then it is a question whether it will be more convenient for the registered office to be situate in England or in the place where the operations of the company are to be carried on. The postal address of the office must not be stated in the memorandum; this will be given in the Notice of the situation of the Registered Office, which has to be filed on the registration of the company.

Objects of the Company.

The third clause of the memorandum will state the objects for which the company is incorporated. The objects should be set out at length, for the company will not be able to undertake any business which is not expressly or impliedly authorized by the memorandum, and the memorandum in this respect cannot be altered, even with the consent of all the members, unless the sanction of the Court is obtained, for "the memorandum of association of a company is its fundamental and (except in certain specified particulars) its unalterable law, and it is incorporated only for the objects and purposes expressed in that memorandum." It follows from this that any act which is outside the powers of a company is void and gives neither party to it any rights against the other, but the directors who have applied the money of the company for any unlawful purpose, will be liable to replace the money so misapplied. It must not, however, be thought that everything which the company proposes to do must be expressly mentioned in the memorandum, for the doctrine of *ultra vires* is to be reasonably and not unreasonably understood and applied, and whatever may be fairly regarded as incidental to or consequential upon the objects set forth in the memorandum will not, unless expressly prohibited, be treated as outside the powers of the company. It is, therefore, essential that the main objects for which the company is to be formed should be expressly stated in the memorandum, and it is advisable and customary to state also any subsidiary objects which the company is likely to want to carry on.

It must be borne in mind that the company must not be formed for an unlawful object such as to deal in lottery bonds, or to carry on any business in which the State has a monopoly, or to carry on business as a trade union for a trade union cannot be registered under the Companies Acts. Nor should the memorandum contain anything which is unlawful, such as a clause authorizing the directors to issue shares at a discount or to pay dividends out of capital or providing that the company may purchase its own shares, for any

such provision might lead the directors to think that they had power to do such acts, all of which are in fact illegal, and, if done by the directors, will render them personally liable.

Liability of the Members.

The fourth paragraph of the memorandum will state that "the liability of the members is limited." These words mean that the liability of the members is limited to the amount (if any) unpaid on their shares, and in no circumstances, however great may be the liabilities of the company, are they liable to pay any sum in excess of the amount unpaid on their shares. If a member parts with his shares and there is still an amount unpaid on them, the liability will pass to his transferee, and his liability will cease unless the company is wound up within one year after the transfer, and the existing members are unable to satisfy the contributions required to be made by them, and even then he will not come under any liability in respect of any debt or liability of the company contracted after he ceased to be a member.

Share Capital of the Company.

The fifth clause of the memorandum must state "the amount of share capital with which the company proposes to be registered, and the division thereof into shares of a fixed amount." A statement that "The Share Capital of the company is £100,000, divided into 100,000 shares of £1 each," is all that need be given in the memorandum, unless it is desired to divide the capital into different classes of shares, and to fix their rights so that they cannot be altered without the sanction of the Court. It is, however, advisable to state in the memorandum only what the Act requires, and in the articles of association to divide the capital into different classes of shares and to define their rights and to provide for the modification or abrogation of such rights with the consent of the holders of the class of shares affected. This arrangement gives ample protection for the shareholders, and at the same time enables the company, with the consent of each class, to modify the right if the necessity so to do ever arises.

All that the Act requires is that the capital shall be divided into shares of a fixed amount, and there is nothing to prevent a company from having shares of different fixed amounts, or from dividing its capital into different classes and attaching to each class such rights, privileges, and restrictions as it thinks fit. Thus a company may have a capital of £100,000 divided into 10,000 preference shares of £5 each, 45,000 ordinary shares of £1 each, and 100,000 deferred shares of 1s. each. Nor is there any restriction on the names which may be given to any class of shares; they may be called preference, preferred ordinary, ordinary, deferred, founders, management, or any other

name that takes the fancy of the promoters or directors of the company.

If it is decided that the capital shall be divided into shares of different classes, the next point to be considered is what rights shall be conferred on each class. Preference shares, for example, may carry a preferential right to a fixed dividend, but no further right to participate in the profits, or they may be participating preference shares, and confer the right not only to a fixed preferential dividend but also the right to participate in any surplus profits. So, too, they may be preferential as to dividend, but not as to capital in the event of the company being wound up, or they may be preferential as to both, and either with or without the right to participate in the surplus profits and assets. Again, the dividends may be non-cumulative or cumulative, i.e. they may be entitled to get their dividend only out of the current year's profits, or they may be cumulative, so that if their dividend falls into arrear they will be entitled to get their arrears out of the profits of subsequent years. If the shares are to be preferential as to capital this must be expressly provided for, for a preference as to dividend will not give a preference as to capital also, and if it is intended that they shall not be entitled to participate in the assets beyond the repayment of their capital the memorandum or articles should so provide, for the law is at present somewhat uncertain on this point. It is, in fact, very desirable that the rights of all the shareholders in the company should be clearly expressed, so that disputes may not subsequently arise as to the rights of the different classes of members.

Sometimes it is desired to have founders, deferred, or management shares. These are generally few in number or of a small nominal amount, but entitling the holders thereof to the whole or a large portion of the profits remaining after payment of a fixed dividend on the preference and ordinary capital, but it is not as a rule advisable that this class of shares should be created.

Declaration of Association.

At the end of the memorandum will come what is known as the "Declaration of Association," which will be in the form shown on the next page.

The Subscribers.

In the case of a private company the number of subscribers must be not less than two. Each subscriber must take at least one share and must write opposite to his name the number of shares he takes. The memorandum must be signed by each subscriber in the presence of at least one witness who must attest his signature. Anybody may subscribe the memorandum except an alien enemy, an infant, a corporation, or a firm, but the last three can be members of the company, and

DECLARATION OF ASSOCIATION

We the several persons whose names and addresses are subscribed are desirous of being formed into a company in pursuance of this Memorandum of Association, and we respectively agree to take the number of Shares in the Capital of the Company set opposite our respective names—

NAMES, ADDRESSES, AND DESCRIPTIONS OF SUBSCRIBERS.			Number of Shares taken by each Subscriber.
1. John Jones, of	in the County of	Merchant	200
2. John Smith, of	in the County of	.	25
3. Thomas Green, of	in the County of	.	30
4. John Thompson, of	in the County of	.	40
5. Caleb White, of	in the County of	.	15
6. Andrew Brown, of	in the County of	.	5
7. Caesar White, of	in the County of	.	10
Total Shares taken . . .			325

Dated the 22nd day of November, 19.....

Witness to the above Signatures—

A. B.,
No. 13 Hute Street, Clerkenwell,
Middlesex.

there is no objection to the partners in a firm subscribing the memorandum. The full name, address, and description of each subscriber should be given; in giving the description vague terms such as "clerk," "gentleman," "agent," should be avoided, and descriptions such as "bank clerk," "house agent," should be used.

The subscribers to the memorandum are deemed to have agreed to become members of the company, and on its registration must be entered as members in its Register of Members.

A person may subscribe the memorandum for any number of shares, but in the case of a private company it is advisable and is customary for him to subscribe for one share only. Each signature must be attested by at least one witness, who should not be himself a subscriber to the memorandum, but there is no necessity for all the subscribers to sign at the same time, though it is convenient that they should do so.

The memorandum may be either written or printed or may be partly written and partly printed, but as every member is entitled to a copy on payment of one shilling or such less sum as the company may prescribe, it is generally desirable on the ground of economy that it should be printed.

CHAPTER IV

ARTICLES OF ASSOCIATION

THE memorandum of association, as has been seen, is the Charter of the company, and defines the limitations of its powers. The articles of

association define the duties, rights and powers of the directors as between themselves and the company at large, and the mode and form in which the business of the company is to be carried on.

In the case of every private company, whether it be limited by shares or by guarantee or be unlimited, articles must be registered with the memorandum, for the Regulations contained in Table A in the First Schedule to the Companies Act, 1908, do not contain the provisions mentioned in the previous chapter, which must be contained in the articles of a private company, and in addition the Table contains some provisions which must not form part of the articles of a private company.

Table A.

Table A referred to above is a set of articles of association, which can be adopted in whole or in part by any company limited by shares, and the regulations contained in the Table will be the regulations of every such company in so far as the articles registered with the memorandum do not exclude or modify the Table.

The first thing, therefore, to be considered is whether Table A shall be adopted with modifications or whether it shall be excluded altogether. If the capital of the company is small and it is desired to save expense in printing, it is usual to adopt Table A with such modifications as may be thought necessary, but if the capital is large or if the modifications to be made in Table A are considerable, it is usual to exclude Table A altogether, and to have an entirely new set of Articles, and this is the course which it is advisable to adopt whenever possible, as all the Regulations of the company will then be contained in one document, and it will not be necessary to refer to the special articles for one provision and to Table A for another.

Settling the Articles.

In settling the articles care must be taken to see that they do not contain any provision which is inconsistent with the memorandum or with the Act, for the articles cannot extend or vary the memorandum, and anything in them which is inconsistent with the Act is void.

The matters contained in the articles will deal with the internal management of the company, and will contain provisions for the following matters: Capital and division of capital into different classes, calls on shares, forfeiture of shares, transfer of shares, alteration of the capital, general meetings and voting thereat, appointment and election of directors and their qualification, remuneration and powers, dividends, accounts, notices, audit, and rights of the shareholders in the event of the company being wound up.

Capital.

The nominal amount of the share capital with which the company proposes to be registered must be stated in the memorandum, but it is unnecessary and, as a rule, inadvisable to divide the capital into different classes in the memorandum or in that document to define the rights attached to each class. Where it is proposed to have different classes of shares and such division is not effected in the memorandum, the articles will divide the capital into different classes and will define the rights to be attached to each class, whether as to dividends, voting, return of capital in a winding up or otherwise.

Calls and Forfeiture.

As a rule shares are not paid up in full on allotment, and it is accordingly necessary to make provision enabling the directors to call up the amount unpaid on the shares as and when the money is required, and to forfeit shares if the holder makes default in paying his calls.

Transfer of Shares.

In the case of a private company the articles must restrict the right to transfer the shares. The Act does not afford any indication as to how stringent the restriction must be, but a general power conferred on the directors to refuse to register any transfer is sufficient. In addition it is frequently desired that provisions shall be made to the effect that any member wishing to transfer his shares shall offer them in the first instance to the directors or to the other members of the company at a price to be fixed by the company at its annual meeting or by the auditors, and there is no legal objection to such provisions.

General Meeting.

Every company limited by shares must hold what is called "the Statutory Meeting" not less than one month nor more than three months from the date at which it is entitled to commence business, and every company, whether limited by shares or not, must hold a general meeting once in every year and not more than fifteen months after the holding of the last preceding general meeting. In addition to the above a company can hold any number of extraordinary general meetings, and the directors must convene a meeting if the holders of not less than one-tenth of the issued capital of the company on which all calls have been paid require them so to do.

Directors.

The directors can be appointed either by the articles or by the subscribers to the memorandum of association; when it is known before the company is formed who are to be the directors it is usual to appoint them by the articles. The Act does not

require that a director shall hold any share qualification but the articles generally provide that every director shall hold a certain number of shares.

When the company is acquiring an existing business and the vendor is taking a considerable portion of the purchase consideration in fully-paid-up shares, it is often provided that the vendor shall be a director or governing director for life with the power to appoint and remove the other directors, and sometimes he is given power to appoint a successor in the event of his death or resignation. How far such provisions are desirable will depend on the circumstances of each particular case, and no definite rule can be laid down.

Articles must be Printed, etc.

The articles must—

- (a) Be printed;
- (b) Be divided into paragraphs numbered consecutively;
- (c) Bear the same stamp as if they were contained in a deed; and
- (d) Be signed by each subscriber of the memorandum of association in the presence of at least one witness who must attest the signature.

Unlike the memorandum, the articles can be altered at any time by special resolution, provided such alteration is for the benefit of the company and does not create a breach of any contractual obligation entered into by the company, and this is a power of which the company cannot deprive itself. But though a company can alter its articles, the passing of the necessary special resolution involves delay and expense, and it is therefore desirable that the articles should be originally drafted with such provisions as are likely to be required.

Incorporation.

When the memorandum and articles have been prepared and signed, they must be lodged at the office of the Registrar of Companies in London, Edinburgh, Belfast or Cork, according to the part of the United Kingdom, whether England, Scotland, or Ireland, in which the registered office of the company is to be situated. In addition to the deed stamp of 10s. each on the memorandum and articles of association, the articles must bear a fee stamp of 5s., and the memorandum a fee stamp which varies from £2 to £50 according to the amount of the nominal capital, and there must be registered with the memorandum a Statement of Nominal Capital in which stamp duty at the rate of £1 per cent of the nominal capital must be paid. A table of the fees to be paid to the Registrar of Companies will be found at the end of the present Section.

In addition to the above forms there must also be filed on or immediately after the incorporation of the company Notice of Situation of Registered

Office and a copy of the Register of Directors, each document bearing a 5s. fee stamp.

There must also be produced to the Registrar a statutory declaration by a solicitor of the High Court, or, in Scotland, by an enrolled law agent, engaged in the formation of the company or by a person named in the articles as a director or secretary of the company that the requirements of the Companies Acts in respect of matters precedent to registration and incidental thereto have been complied with.

The documents, having been lodged for registration, are then examined and if they are found to be in order the company will be registered two or three days after the documents were lodged, and the Registrar will issue a certificate under his hand that the company is incorporated and that the company is limited. From the date of incorporation mentioned in the certificate of incorporation, the subscribers of the memorandum, together with such other persons as may from time to time become members of the company, shall be a body corporate by the name contained in the memorandum, capable forthwith of exercising all the functions of an incorporated company, and having perpetual succession and a common seal, with power to hold lands, but with such liability on the part of the members to contribute to the assets of the company in the event of its being wound up as is mentioned in the Act.

The certificate of incorporation given by the Registrar in respect of any association is conclusive evidence that all the requirements of the Acts in respect of registration and of matters precedent and incidental thereto have been complied with and that the association is a company authorized to be registered and duly registered under the Act.

Forms.

In addition to the memorandum and articles, the following forms must be registered on the incorporation of a private company—

Declaration of Compliance with requirements of Companies Acts, as shown on page 1039.

Statement of Nominal Capital.

Notice of Situation of Registered Office, as shown on page 1040.

CHAPTER V

COMPANIES LIMITED BY GUARANTEE

A COMPANY limited by guarantee is one in which the liability of each member is limited by the memorandum of association to such amount as he undertakes to contribute to the assets of the company in the event of its being up. This amount may be any sum from a farthing upwards that may be desirable.

The Memorandum.

The memorandum of association of such a company must state—

- (i) The name of the company, with "Limited" as the last word in its name;
- (ii) The part of the United Kingdom, whether England, Scotland, or Ireland, in which the registered office of the company is to be situate;
- (iii) The objects of the company;
- (iv) That the liability of the members is limited;
- (v) That each member undertakes to contribute to the assets of the company in the event of its being wound up while he is a member, or within one year afterwards, for payment of the debts and liabilities of the company contracted before he ceases to be a member, and of the costs, charges, and expenses of winding up, and for adjustment of the rights of the contributories among themselves, such amount as may be required, not exceeding a specified amount.

Share Capital.

A company limited by guarantee may or may not have a share capital. If the company has a share capital—

- (i) The memorandum must also state the amount of share capital with which the company proposes to be registered and the division thereof into shares of a fixed amount;
- (ii) No subscriber of the memorandum may take less than one share;
- (iii) Each subscriber must write opposite to his name the number of shares he takes.

Articles of Association.

Articles of association must be registered with the memorandum, for Table A does not apply to a company limited by guarantee, but it can adopt such of the provisions of that Table as it thinks fit. The articles of association can contain much the same provisions as the articles of a company limited by shares, except that if it has a share capital the amount of the share capital must be stated in the articles, and if it has no share capital the articles must state the number of members with which the company proposes to be registered. Whether the company has a share capital or not, the articles should not contain any provisions authorizing the company to consolidate or subdivide its capital, to issue share warrants, to convert shares into stock or to cancel shares which have not been taken by any person, for such provisions apply only to companies limited by shares.

If the company has a share capital, it can be either a public or a private company, but if it has no share capital it must be a public company.

Companies limited by guarantee are not very common; they are generally clubs, societies, or trade associations, where capital is not required.

Number of }
Certificate }

"THE COMPANIES ACTS, 1908 to 1917"



Declaration of Compliance

WITH THE

REQUIREMENTS OF THE COMPANIES (CONSOLIDATION) ACT, 1908

Made pursuant to Section 17, Sub-section 2, of The Companies (Consolidation) Act, 1908, on behalf of a Company proposed to be Registered as.....

LIMITED

* Here insert :
" A Solicitor of
the High Court
engaged in the
formation," or
" A person
named in the
Articles of As-
sociation as a
Director (or
Secretary)."

I
of

Do solemnly and sincerely Declare that I am*.....

LIMITED

and that all the requirements of The Companies (Consolidation) Act, 1908, in respect of matters precedent to the registration of the said Company and incidental thereto have been complied with. And I make this solemn Declaration conscientiously believing the same to be true, and by virtue of the provisions of The Statutory Declarations Act, 1835.

Declared at

the day of

One thousand nine hundred and

before me,

A Commissioner for Oaths.

Presented for filing by

Number of }
Certificate }

"THE COMPANIES ACTS, 1908 to 1917"



Notice of the
Situation of the Registered Office

OF

LIMITED

Pursuant to Section 62 of The Companies (Consolidation) Act, 1908.

To THE REGISTRAR OF JOINT STOCK COMPANIES.

The above-named Company hereby gives you notice, in accordance with the provisions of The Companies Acts, 1908 to 1917, that the Registered Office of the Company is now situated at.....

The Number or Name (if any) of the Premises, together with the street or Road, Town, and County, should be given.

Signature

Officer

Dated the.....day

of 19.....

Presented for filing by

CHAPTER VI

UNLIMITED COMPANIES

An unlimited company is one in which the liability of the members is unlimited, and very few of them are now registered.

The memorandum of association must state—

(i) The name of the company ;

and if it has no capital the articles must state the number of members with which the company proposes to be registered for the purpose of enabling the Registrar to determine the fees payable on registration. In either case the articles should omit all provisions relating to consolidation and subdivision of shares, issue of shares, conversion of shares into stock, and



By permission

Libraco, Ltd.

A WELL-EQUIPPED OFFICE OF THE PEPSODENT CO.

(ii) The part of the United Kingdom, whether England, Scotland, or Ireland, in which the registered office of the company is to be situate ;

(iii) The objects of the company.

It may or may not have a share capital, but if the company has a share capital—

(i) No subscriber of the memorandum may take less than one share ;

(ii) Each subscriber must write opposite to his name the number of shares he takes.

As in the case of a company limited by guarantee Table A does not apply to an unlimited company, which must accordingly be registered with articles of association. If the company has a share capital the amount thereof must be stated in the articles,

cancellation of shares, for an unlimited company has no power to do any of such things.

Registration as Limited Company.

An unlimited company may at any time register under the Companies Acts as limited, but such registration will not affect the liability of the company or of the members as regards any debts, obligations, or contracts entered into by the company before the registration. If the company has a share capital it may by its resolution for registration as a limited company do either or both of the following things, namely—

(a) Increase the nominal amount of its share capital by increasing the nominal amount of each

of its shares, but subject to the condition that no part of the increased capital shall be capable of being called up except in the event and for the purposes of the company being wound up;

(b) Provide that a specified portion of its uncalled share capital shall not be capable of being called up except in the event and for the purposes of the company being wound up.

CHAPTER VII

PUBLIC COMPANIES

THERE is no definition of a public company in the Companies Acts, but every company which is not a private company is a public company. The constitution of a public company is the same as that of a private company except that not less than seven persons must subscribe its memorandum and articles of association and the provisions which have to be inserted in the articles of a private company (see Chapter IV) need not be inserted in its regulations, for there is no limit to the number of its members, and it can offer its shares or debentures to the public for subscription. It should, however, insert in its memorandum or articles a clause fixing the minimum subscription on which the company may go to allotment; otherwise the directors will not be able to allot any shares unless the whole of the share capital offered for subscription or, if there is no offer to the public, the whole amount of the share capital other than that issued or agreed to be issued as fully or partly paid up otherwise than in cash, has been subscribed.

Restrictions on Public Company.

A public company is, however, subject to certain restrictions from which a private company is free, of which the following are the most important—

1. It must on incorporation issue a prospectus or file with the Registrar of Companies a statement in lieu of prospectus in the form and containing the particulars set out in the Act.

2. In the case of the first offer of any shares to the public for subscription or, if there is no offer to the public, in the case of the first allotment of share capital payable in cash, the company cannot allot any shares unless what is called the minimum subscription is applied for.

3. It cannot commence any business or exercise any borrowing powers until it has obtained a certificate entitling it to commence business.

4. A director cannot be appointed by the articles or named in the prospectus, or statement in lieu of prospectus, unless before the registration of the articles or the publication of the prospectus, or the filing of the statement in lieu of prospectus, as the case may be, he has by himself or by his agent authorized in writing—

(i) Signed and filed with the Registrar of Companies a consent in writing to act as such director (see form on page 1043); and

(ii) Either signed the memorandum for a number of shares not less than his qualification (if any), or signed and filed with the Registrar a contract in writing to take from the company and pay for his qualification shares (if any).

Prospectus and Statement in Lieu of Prospectus.

As stated above, every public company must, before it allots any shares or debentures, file with the Registrar a prospectus or a statement in lieu of prospectus. A prospectus is defined in the Act as meaning "any prospectus, notice, circular, advertisement or other invitation offering to the public for subscription or purchase any shares or debentures of a company." As to what constitutes "the public" no definite rule can be laid down; the answer will depend on the particular circumstances of each case. All that the Act provides is that a circular inviting existing members or debenture holders of a company to apply for shares or debentures of the company is not a prospectus. If the company desires to raise capital from the public it will issue a prospectus; if, on the other hand, the company is to be a public company but it is not proposed to offer any shares or debentures for public subscription the company will file a statement in lieu of prospectus in the form shown on pp. 1044-45.

The statement must be stamped with a fee stamp of 5s., and be filed with the Registrar of Companies before any shares or debentures are allotted, and until the statement or a prospectus has been so filed the company will not be able to obtain a certificate entitling it to commence business.

Every prospectus as defined above must be dated, and must be signed by every person who is named therein as a director or proposed director of the company or by his agent authorized in writing, and must be filed with the Registrar of Companies on or before the date it bears, and it must not be issued until a copy has been so filed, and every prospectus must state on the face of it that it has been so filed.

Every prospectus issued by or on behalf of a company, or by or on behalf of any person who is or has been engaged or interested in the formation of the company must state—

(a) The contents of the memorandum, with the names, descriptions, and addresses of the signatories, and the number of shares subscribed for by them respectively; and the number of founders or management or deferred shares, if any, and the nature and extent of the interest of the holders in the property and profits of the company; and

(b) The number of shares, if any, fixed by the articles as the qualification of a director, and any provision in the articles as to the remuneration of the directors; and

(c) The names, descriptions, and addresses of the directors or proposed directors; and

Number of {
Certificate }

"THE COMPANIES ACTS, 1908 to 1917"



Consent to Act as Directors

OF

.....
LIMITED

TO THE REGISTRAR OF JOINT STOCK COMPANIES

I *or* We the undersigned hereby testify my [*or* our] consent to act as Director
[*or* Directors] of

..... LIMITED,
pursuant to Section 72, Sub-section 1 (i) of The Companies (Consolidation) Act, 1908.

* If a Director signs by "his Agent authorized in writing," the authority must be produced and a copy filed.

* SIGNATURE.	ADDRESS.	DESCRIPTION.

Dated this.....day of....., 19.....

Presented for filing by
.....
.....

Number of }
Certificate }

THE COMPANIES ACTS, 1908 TO 1917.



STATEMENT IN LIEU OF PROSPECTUS.

filed by

LIMITED.

pursuant to section eighty-two of the Companies (Consolidation) Act, 1908.

Presented for filing by

THE COMPANIES ACTS, 1908 TO 1917,

LIMITED.

STATEMENT IN LIEU OF PROSPECTUS.

The nominal share capital of the company ..	£
Divided into	Shares of £ each. " " " " " "
Names, descriptions, and addresses of directors or proposed directors.	
Minimum subscription (if any) fixed by the memorandum or articles of association on which the company may proceed to allotment.	
Number and amount of shares and debentures agreed to be issued as fully or partly paid-up otherwise than in cash.	1. shares of £ fully paid. 2. shares upon which £ per share credited as paid.
The consideration for the intended issue of those shares and debentures.	3. debenture £ 4. Consideration.
Names and addresses of (a) vendors of property purchased or acquired, or proposed to be (b) purchased or acquired by the company.	
Amount (in cash, shares, or debentures) payable to each separate vendor.	
Amount (if any) paid or payable (in cash or shares or debentures) for any such property, specifying amount (if any) paid or payable for goodwill.	Total purchase price £ Cash £ Shares £ Debentures .. £ Goodwill £
Amount (if any) paid or payable as commission for subscribing or agreeing to subscribe or procuring or agreeing to procure subscriptions for any shares or debentures in the company, or Rate of the commission	Amount paid. " payable. Rate per cent.
Estimated amount of preliminary expenses ..	£

(a) For definition of vendor, see Section 81 (2) of the Companies (Consolidation) Act, 1908.
(b) See Section 81 (3) of the Companies (Consolidation) Act, 1908.

STATEMENT IN LIEU OF PROSPECTUS—*continued.*

Amount paid or intended to be paid to any promoter. Consideration for the payment.	Name of promoter. Amount $\pounds$. Consideration :—
Dates of, and parties to, every material contract (other than contracts entered into in the ordinary course of the business intended to be carried on by the company or entered into more than two years before the filing of this statement).	
Time and place at which the contracts or copies thereof may be inspected.	
Names and addresses of the auditors of the company (if any).	
Full particulars of the nature and extent of the interest of every director in the promotion of or in the property proposed to be acquired by the company, or, where the interest of such director consists in being a partner in a firm, the nature and extent of the interest of the firm, with a statement of all sums paid or agreed to be paid to him or to the firm, in cash or shares, or otherwise, by any person either to induce him to become, or to qualify him as, a director, or otherwise for services rendered by him or by the firm in connection with the promotion or formation of the company.	
Whether the articles contain any provisions precluding holders of shares or debentures receiving and inspecting balance sheets or reports of the auditors or other reports.	Nature of the provisions.

(Signature of the persons above named as directors or proposed directors, or of their agents authorised in writing.)

Date.....19.....

(d) The minimum subscription on which the directors may proceed to allotment, and the amount payable on application and allotment on each share; and in the case of a second or subsequent offer of shares, the amount offered for subscription on each previous allotment made within the two preceding years, and the amount actually allotted, and the amount, if any, paid on the shares so allotted; and

(e) The number and amount of shares and debentures which within the two preceding years have been issued, or agreed to be issued, as fully or partly paid up otherwise than in cash, and in the latter case the extent to which they are so paid up, and in either case the consideration for which those shares or debentures have been issued or are proposed or intended to be issued; and

(f) The names and addresses of the vendors of any property purchased or acquired by the company, or proposed so to be purchased or acquired, which is to be paid for wholly or partly out of the proceeds of the issue offered for subscription by the prospectus, or the purchase or acquisition of which has not been completed at the date of issue of the prospectus, and the amount payable in cash, shares, or debentures, to the vendor, and where there is more than one separate vendor, or the company is a sub-purchaser, the amount so payable to each vendor: Provided that where

the vendors or any of them are a firm the members of the firm shall not be treated as separate vendors; and

(g) The amount (if any) paid or payable as purchase money in cash, shares, or debentures, for any such property as aforesaid, specifying the amount (if any) payable for goodwill; and

(h) The amount (if any) paid within the two preceding years, or payable, as commission for subscribing or agreeing to subscribe, or procuring or agreeing to procure subscriptions, for any shares in, or debentures of, the company, or the rate of any such commission: Provided that it shall not be necessary to state the commission payable to sub-underwriters; and

(i) The amount or estimated amount of preliminary expenses; and

(j) The amount paid within the two preceding years or intended to be paid to any promoter, and the consideration for any such payment; and

(k) The dates of and parties to every material contract, and a reasonable time and place at which any material contract or a copy thereof may be inspected: Provided that this requirement shall not apply to a contract entered into in the ordinary course of the business carried on or intended to be carried on by the company, or to any contract entered

into more than two years before the date of issue of the prospectus; and

(l) The names and addresses of the auditors (if any) of the company; and

(m) Full particulars of the nature and extent of the interest (if any) of every director in the promotion of, or in the property proposed to be acquired by, the company, or where the interest of such a director consists in being a partner in a firm, the nature and extent of the interest of the firm, with a statement of all sums paid or agreed to be paid to him or to the firm in cash or shares or otherwise by any person either to induce him to become, or to qualify him as, a director, or otherwise for services rendered by him or by the firm in connection with the promotion of the company; and

(n) Where the company is a company having shares of more than one class, the right of voting at meetings of the company conferred by the several classes of shares respectively.

Minimum Subscription.

In the case of the first offer of any shares to the public for subscription the minimum subscription is the amount (if any) fixed by the memorandum or articles, and named in the prospectus as the minimum subscription upon which the directors may proceed to allotment, or if no amount is so fixed and named, then the whole amount of the share capital so offered for subscription has been subscribed and the amount payable on application therefor has been paid to and received by the company. The amount so fixed and named must be reckoned exclusively of any amount payable otherwise than in cash, and is what is known as the minimum subscription.

If the company does not issue a prospectus but files a statement in lieu of prospectus, then in the case of the first allotment of share capital payable in cash no allotment may be made unless the minimum subscription, that is to say—

(a) The amount (if any) fixed by the memorandum or articles and named in the statement in lieu of prospectus as the minimum subscription upon which the directors may proceed to allotment; or

(b) If the amount is so fixed and named, then the whole amount of the share capital other than that issued or agreed to be issued as fully or partly paid up otherwise than in cash, has been subscribed and an amount not less than 5 per cent of the nominal amount of each share payable in cash has been paid to and received by the company.

It will be noticed that the Act does not require any specified amount to be fixed as the minimum subscription, and in practice it is usual to fix the amount at seven shares. It is also to be observed that the minimum subscription applies only to the first offer or allotment, except that in the case of every offer the amount payable on application must be not less than 5 per cent of the nominal amount of each share.

If the minimum subscription is not applied for within forty days after the first issue of the prospectus all money received from applicants for

shares must be forthwith repaid to them, and if the company goes to allotment in contravention of the above-mentioned provisions the allotment will be voidable at the instance of the applicant at any time within one month after the holding of the statutory meeting.

Vendors.

For the purpose of a prospectus or of a statement in lieu of prospectus every person is deemed to be a vendor who has entered into any contract for the sale or purchase or for any option of purchase of any property to be acquired by the company in any case where—

(a) The purchase money is not fully paid at the date of issue of the prospectus; or

(b) The purchase money is to be paid or satisfied wholly or in part out of the proceeds of the issue offered for subscription by the prospectus; or

(c) The contract depends for its validity or fulfilment on the result of that issue.

And where any of the property to be acquired by the company is to be taken on lease the expression "Vendor" includes the lessor, and the expression "purchase money" includes the consideration for the lease, and the expression "sub-purchaser" includes a sub-lessee.

If, therefore, the company buys the benefit of a contract for the purchase of any property, the purchase money for which has not been fully paid at the time of the issue of the prospectus, it will be necessary to state not only the amount payable to the vendor to the company but also the amount payable to the original vendor.

Material Contracts.

What is a material contract is a question of fact, but it has been held that every contract, which upon a reasonable construction of its purport and effect would assist a person in determining whether he would become a shareholder in the company is a material contract, of which disclosure must be made.

If the prospectus is issued more than one year after the company is entitled to commence business the above requirements as to the memorandum, the qualification, remuneration, and interest of the directors, the names, addresses and descriptions of the directors or proposed directors and the amount of the preliminary expenses need not be given.

It is very important that a prospectus should contain all the particulars required by the Act, and that there should be no mis-statement of a material fact, for any person who is induced by any such mis-statement to take shares in the company will be entitled to rescission of his contract and to damages against the persons responsible for the prospectus unless they can

This Prospectus has been filed with the Registrar of Companies.

The Subscription List will open on the _____ day of _____, 19.., and will close on or before the following

The Eagle Engineering Company LIMITED

(Incorporated under the Companies Acts,
1908 to 1917.)

SHARE CAPITAL - - - £250,000,

divided into

100,000 8 per cent Cumulative Preference Shares
of £1 each,

and

150,000 Ordinary Shares of £1 each.

The Preference Shares are preferential as to Dividend and Capital, but have no further right to participate in the profits or assets of the Company.

100,000 8 per cent Cumulative Preference Shares
and

100,000 Ordinary Shares

are now offered for Subscription at par. Payable as follows—

On application . . . 5s. per share

On allotment . . . 15s. per Share

DIRECTORS

[Set out names, addresses, and descriptions]

BANKERS.

SOLICITORS.

AUDITORS.

[Set out names and addresses.]

SECRETARY AND REGISTERED
OFFICE.

PROSPECTUS.

The Company has been formed for the purposes mentioned in the Memorandum of Association, and particularly to acquire and carry on the business of Engineers carried on by A B & Co. at

The property to be acquired has been valued by Messrs. as follows—

[Set out the valuation.]

The profits of the Company for the last five years as certified by the Vendors' Auditors have been as follows—

[Set out Auditors' Certificate.]

The Company is acquiring the property for the sum of £200,000, to be satisfied as to £50,000 by the allotment to the Vendors of 50,000 fully paid up on Ordinary Shares, and as to £150,000 in cash. The amount payable for goodwill is £20,000.

The proceeds of this issue after payment of the purchase price and the preliminary expenses will provide the Company with £45,000 for working capital and the extension of the business. The Directors consider that this will be ample.

The following additional information is given in accordance with the requirements of the Companies Acts—

(a) The Memorandum of Association of the Company is printed in the fold of this prospectus, of which it forms a part.

(b) The qualification of a Director is the holding of Shares to the nominal value of £

(c) The Articles contain the following provisions as to the remuneration of the Directors.

[Set out the Articles verbatim.]

(d) The minimum subscription upon which the Directors may proceed to allotment is Seven Shares.

(e) The Vendors to the Company are of

(f) No underwriting commission has been or will be paid.

(g) The preliminary expenses are estimated to amount to £5,000, and will be paid by the Company.

(h) The following contracts have been entered into—

[Set out dates of and parties to every material contract.]

(i) Mr. A., one of the Directors, is a member of the Vendor's firm, and is interested in the purchase consideration accordingly.

(j) The Articles contain the following provision as to voting—

[Set out Articles as to voting.]

(k) A copy of the Memorandum and Articles of Association, the above-mentioned valuation, certificate and contracts or copies thereof can be seen at the offices of the Company's Solicitors during the usual business hours on any day while the subscription list remains open.

Applications for Shares should be made on the form accompanying this prospectus, and sent to the Company's Bank with a remittance for the amount payable on application.

If no allotment is made the amount paid on application will be returned in full, and if the number of shares allotted is less than the number applied for, the balance of the amount paid on application will be applied towards the amount due on allotment, and any excess will be returned to the applicant.

Prospectus and forms of application can be obtained from the Company's Bankers or Solicitors, or at the registered office of the Company.

Dated 192

show that they had reasonable grounds for believing and did up to the time of allotment believe that the statement was true.

Form of Prospectus.

An idea of the form of a prospectus will be gathered from a perusal of the abbreviated form shown on the previous page.

On the filing of the above-mentioned statutory declaration and, in the case of a company which has not issued a prospectus, of a statement in lieu of a prospectus, the Registrar will certify that the company is entitled to commence business. Any contract made by the company before such certificate is given will be provisional only and will not become binding on the company until it



CANTEEN AT BASINGSTOKE WORKS
(Messrs. John I. Thornycroft & Co., Ltd.)

Commencement of Business.

A public company cannot commence any business or exercise any borrowing powers unless—

(a) Shares held subject to the payment of the whole amount thereof in cash have been allotted to an amount not less in the whole than the minimum subscription; and

(b) Every director of the company has paid to the company on each of the shares taken or contracted to be taken by him, and for which he is liable to pay in cash, a proportion equal to the proportion payable on application and allotment on the shares offered for public subscription, or in the case of a company which does not issue a prospectus inviting the public to subscribe for its shares, on the shares payable in cash; and

(c) There has been filed with the Registrar of Companies a statutory declaration by the secretary or one of the directors, in the prescribed form (shown on page 1050), that the aforesaid conditions have been complied with; and

(d) In the case of a company which does not issue a prospectus inviting the public to subscribe for its shares, there has been filed with the Registrar of Companies a statement in lieu of prospectus.

is entitled to commence business. The company can, however, before it is entitled to commence business, offer simultaneously shares and debentures and allot them, and receive the money payable on application for the debentures.

Underwriting Commission.

Every company, whether public or private, can pay underwriting commission to any person in consideration of his subscribing or agreeing to subscribe, whether absolutely or conditionally, for any shares in the company, or procuring or agreeing to procure subscriptions, whether absolute or conditional, for any shares in the company, if the payment of the commission is authorized by the articles, and the commission paid does not exceed the amount or rate so authorized, and if

the amount of rate per cent of the commission is—

(a) In the case of shares offered to the public for subscription, disclosed in the prospectus; or

(b) In the case of shares not offered to the public for subscription, disclosed in the statement in lieu of prospectus, or in a statement in the prescribed form signed in like manner as a statement in lieu of prospectus and filed with the Registrar of Companies, and, where a circular or notice,

Allotment of Shares.

Whenever any company limited by shares, whether public or private, makes an allotment of shares, it must within one month thereafter file with the Registrar of Companies—

(a) A return of the allotments, stating the number and nominal amount of the shares comprised in the allotment,



INTERIOR OF CANTEEN AT BASINGSTOKE WORKS
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not being a prospectus, inviting subscription for the shares is issued, also disclosed in that circular or notice.

Save as mentioned above, the payment, either directly or indirectly, of any commission in respect of shares out of the shares or capital money of the company is illegal, but the company can pay underwriting commission in respect of debentures or it can issue them at a discount, whether it be authorized by its Articles so to do or not.

The amount paid by way of commission or so much thereof as has not been written off must be stated in every Balance Sheet until the whole amount has been written off, and the total amount so paid must be stated in the Annual List and Summary next made after the payment of the commission.

the names, addresses, and descriptions of the allottees, and the amount (if any) paid or due and payable on each share; and

(b) In the case of shares allotted as fully or partly paid up otherwise than in cash, a contract in writing constituting the title of the allottee to the allotment together with any contract of sale, or for services, or other consideration in respect of which that allotment was made, such contracts being duly stamped, and a return stating the number and nominal amount of shares so allotted, the extent to which they are to be treated as paid up, and the consideration for which they have been allotted.

If the contract constituting the title of the allottee to shares allotted as fully or partly paid up otherwise than in cash is not reduced to writing the company must within one month after the allotment file with the Registrar the prescribed particulars of the contract stamped with the same

Number of {
Certificate }

"THE COMPANIES ACTS, 1908 to 1917"



Declaration

MADE ON BEHALF OF

.....
LIMITED

Pursuant to Section 87 of the Companies (Consolidation) Act, 1908.

I
of
being*
of LIMITED,
do solemnly and sincerely declare—

* Insert here
"the Secre-
tary" or "a
Director."

THAT the amount of the Share Capital of the Company offered to the public for subscription is £.....

THAT the amount fixed by the Memorandum or Articles of Association and named in the Prospectus as the Minimum Subscription upon which the Company may proceed to allotment is £.....

THAT Shares held subject to the payment of the whole amount thereof in cash have been allotted to the amount of £.....

THAT every Director of the Company has paid to the Company on each of the Shares taken or contracted to be taken by him, and for which he is liable to pay in cash, a proportion equal to the proportion payable on Application and Allotment on the Shares offered for public subscription.

And I make this solemn Declaration conscientiously believing the same to be true, and by virtue of the provisions of The Statutory Declarations Act, 1835.

Declared at

the day of

One thousand nine hundred and
before me,

.....
A Commissioner for Oaths.

Presented for filing by
.....

stamp duty as would have been payable if the contract had been reduced to writing.

The Letter of Allotment must bear a penny stamp if the nominal amount of the shares is less than £5; if the amount is £5 or over the allotment letter must bear a sixpenny stamp.

Forms Required.

In addition to the forms which have to be filed on the registration of a private company, the following additional forms are required in the case of a public company—

1. A consent in writing to act as a director signed by every person appointed a director by the articles or named as a director or proposed director in any prospectus or statement in lieu of prospectus issued or filed by or on behalf of the company. This consent will be in the form set out on p. 1043, and must be signed by the director or by his agent authorized in writing.

2. A contract in writing to take from the company and pay for his qualification shares (if any). If, however, the director has signed the memorandum of association for a number of shares not less than his qualification (if any) this contract need not be filed. The contract will require a stamp of 6d. in respect of each director signing it if the qualification is £5 or more.

3. A list of persons who have consented to be directors of the company,

4. A prospectus or statement in lieu of prospectus.

Within one month after the registration of a company, the Companies (Particulars as to Directors) Act, 1917, requires the filing of particulars of the directors of the company in the form shown on the next page.

APPENDIX A TABLE OF FEES

THE fees to be paid to the Registrar of Companies under Sections 244 and 259 of the Companies (Consolidation) Act, 1908, are set out below.

Company having a Share Capital.

If the company has a share capital, the fees are—

	£	s.	d.
For registration of a company whose nominal share capital does not exceed £2,000	2	-	-
For registration of a company whose nominal share capital exceeds £2,000 the following fees, regulated according to the amount of nominal share capital, that is to say—		£	s.
For every £1,000 of nominal share capital, or part of £1,000, up to £5,000	1	-	-
For every £1,000 of nominal share capital, or part of £1,000, after the first £5,000 up to £100,000	5	-	-
For every £1,000 of nominal share capital, or part of £1,000, after the first £100,000	1	-	-

For registration of any increase of share capital made after the first registration of the company the same fees per £1,000, or part of a £1,000, as would have been payable if the increased share capital had formed part of the original share capital at the time of registration:

Provided that no company shall be liable to pay in respect of nominal share capital, on registration or afterwards, any greater amount of fees than £50, taking into account in the case of fees payable on an increase of share capital after registration the fees paid on registration.

For registration of any existing company, except such companies as are by this Act exempted from payment of fees in respect of registration under this Act, the same fee as is charged for registering a new company.

For registering any document by this Act required or authorized to be registered, other than the memorandum or the abstract required to be filed with the Registrar by a receiver or manager or the Statement required to be sent to the Registrar by the liquidator in a winding-up in England

For making a record of any fact by this Act required or authorized to be recorded by the Registrar

£ s. d.

5 -

5 -

In addition to the above fees the memorandum and articles will each have to bear a 10s. deed stamp, and capital duty will be payable at the rate of £1 for every £100 of nominal capital.

A Company not having a Share Capital.

If the company is not to have a share capital, the necessary fees are—

	£	s.	d.
For registration of a company whose number of members, as stated in the articles, does not exceed 20	2	-	-
For registration of a company whose number of members, as stated in the articles, exceeds 20, but does not exceed 100	5	-	-
For registration of a company whose number of members, as stated in the articles, exceeds 100, but is not stated to be unlimited, the above fee of £5, with an additional 5s. for every 50 members or less number than 50 members after the first 100.			
For registration of a company in which the number of members is stated in the articles to be unlimited	20	-	-
For registration of any increase on the number of members made after the registration of the company in respect of every 50 members, or less than 50 members, of that increase	5	-	-
Provided that no company shall be liable to pay on the whole a greater fee than £20 in respect of its number of members, taking into account the fee paid on the first registration of the company.			
For registration of any existing company, except such companies as are by this Act exempted from payment of fees in respect of registration under this Act, the same fee as is charged for registering a new company.			
For registering any document by this Act required or authorized to be registered, other than the memorandum or the abstract required to be filed with the Registrar by a receiver or manager or the Statement required to be sent to the Registrar by the liquidator in a winding-up in England	5	-	-
For making a record of any fact by this Act required or authorized to be recorded by the Registrar	5	-	-

APPENDIX B
SPECIMEN ARTICLES OF
ASSOCIATION

1. TABLE A shall not apply to this company.

2. In these regulations, unless the context otherwise requires, expressions defined in The Companies (Consolidation) Act, 1908, or any statutory modification thereof in force at the date at which these regulations become binding on the company, shall have the meanings so defined; and words importing the singular shall include the plural, and vice versa, and words importing the masculine gender shall include females, and words importing persons shall include bodies corporate.

3. The number of the members of the company (exclusive of persons who are in the employment of the company and of persons who, having been formerly in the employment of the company, were while in such employment and have continued after the determination of such employment to be members of the company) shall be limited to fifty.¹

4. The company shall not issue any invitation to the public to subscribe for its shares or debentures.¹

¹ This clause will be omitted in the case of a public company.

Share Capital.

5. The share capital of the company is £100,000 divided into 50,000 preference shares of £1 each and 50,000 ordinary shares of £1 each.

Shares.

6. Subject to the provisions, if any, in that behalf of the Memorandum of Association of the company, and without prejudice to any special rights previously conferred on the holders of existing shares in the company, any share in the company may be issued with such preferred, deferred, or other special rights, or such restrictions, whether in regard to dividend, voting, return of share capital, or otherwise, as the company may from time to time by special resolution determine.²

7. If at any time the share capital is divided into different classes of shares, the rights attached

² In the case of a public company the following should be inserted—

6a. The minimum subscription upon which the directors may proceed to allotment is [seven] shares.

6b. No share shall be offered to the public for subscription except upon the terms that the amount payable on application shall be at least five per cent of the nominal amount of the share; and the directors shall, as regards any allotment of shares, duly comply with such of the provisions of sections eighty-five and eighty-eight of The Companies (Consolidation) Act, 1908, as may be applicable thereto.

"THE COMPANIES (PARTICULARS AS TO DIRECTORS) ACT, 1917."

Return pursuant to Section 2, Sub-Section (1), by.....Limited,
of Particulars respecting the *Directors of the Company and respecting the persons who since the
registration of the Company have been Directors of the Company.

† THE PRESENT CHRISTIAN NAME OR NAMES AND SURNAME.	‡ ANY FORMER CHRISTIAN NAME OR NAMES OR SURNAME.	NATIONALITY OF ORIGIN (if other than the Present Nationality).	USUAL RESIDENCE.	OTHER BUSINESS OCCUPATION(S) IF ANY.
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DIRECTORS AT THE DATE OF THE RETURN.

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§ Persons who since the Registration of the Company have been Directors of the Company but are not Directors at the Date of the Return.

--	--	--

Date19.....

Signature
Officer

* "Director" includes any person who occupies the position of a Director and any person in accordance with whose directions or instructions the Directors of a Company are accustomed to act.

† Christian name includes any forename. In the case of a Peer or a person usually known by a British title different from his surname the title by which he is known must be substituted for his surname.

‡ In the case of natural-born British subjects, a former Christian name or surname should not be shown where that name or surname has been changed or disused before the person bearing the name had attained the age of eighteen years; and in the case of a married woman the name or surname by which she was known previous to the marriage should not be given.

§ Particulars with regard to the persons who are not Directors at the date of the Return are not required in the case of a Company incorporated outside the United Kingdom.

to any class (unless otherwise provided by the terms of issue of the shares of that class) may be varied with the consent in writing of the holders of three-fourths of the issued shares of that class, or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of the class. To every such separate general meeting the provisions of these regulations relating to general meetings shall *mutatis mutandis* apply, but so that the necessary quorum shall be two persons at least holding or representing by proxy one-third of the issued shares of the class.

8. Every person whose name is entered as a member in the register of members shall, without payment, be entitled to a certificate under the common seal of the company specifying the share or shares held by him and the amount paid up thereon, provided that in respect of a share or shares held jointly by several persons the company shall not be bound to issue more than one certificate, and delivery of a certificate for a share to one of several joint holders shall be sufficient delivery to all.

9. If a share certificate is defaced, lost, worn out, or destroyed, it may be renewed on payment of such fee, if any, not exceeding one shilling, and on such terms, if any, as to evidence and indemnity as the directors think fit.

10. No part of the funds of the company shall be employed in the purchase of, or in loans upon the security of, the company's shares.

Lien.

11. The company shall have a lien on every share (not being a fully-paid share) for all moneys (whether presently payable or not) called or payable at a fixed time in respect of that share, and the company shall also have a lien on all shares (other than fully-paid shares) standing registered in the name of a single person, for all moneys presently payable by him or his estate to the company; but the directors may at any time declare any share to be wholly or in part exempt from the provisions of this clause. The company's lien, if any, on a share shall extend to all dividends payable thereon.

12. The company may sell, in such manner as the directors think fit, any shares on which the company has a lien, but no sale shall be made unless some sum in respect of which the lien exists, is presently payable, nor until the expiration of fourteen days after a notice in writing, stating and demanding payment of such part of the amount in respect of which the lien exists as is presently payable, has been given to the registered holder for the time being of the share, or the person entitled by reason of his death or bankruptcy to the share.

13. The net proceeds of the sale shall be applied payment of such part of the amount in respect

of which the lien exists as is presently payable, and the residue shall (subject to a like lien for sums not presently payable as existed upon the shares prior to the sale) be paid to the person entitled to the shares at the date of the sale. The purchaser shall be registered as the holder of the shares, and he shall not be bound to see to the application of the purchase money, nor shall his title to the shares be affected by any irregularity or invalidity in the proceedings in reference to the sale.

Calls on Shares.

14. The directors may from time to time make calls upon the members in respect of any moneys unpaid on their shares, provided that no call shall exceed one-fourth of the nominal amount of the share, or be payable at less than one month from the last call; and each member shall (subject to receiving at least fourteen days' notice specifying the time or times of payment) pay to the company at the time or times so specified the amount called on his shares. A call shall be deemed to have been made at the time when the resolution of the directors authorizing the same was passed.

15. The joint holders of a share shall be jointly and severally liable to pay all calls in respect thereof.

16. If a sum called in respect of a share is not paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest upon the sum at the rate of five pounds per cent per annum from the day appointed for the payment thereof to the time of the actual payment, but the directors shall be at liberty to waive payment of that interest wholly or in part.

17. The provisions of these regulations as to payment of interest shall apply in the case of non-payment of any sum which, by the terms of issue of a share, becomes payable at a fixed time, whether on account of the amount of the share, or by way of premium, as if the same had become payable by virtue of a call duly made and notified.

18. The directors may make arrangements on the issue of shares for a difference between the holders in the amount of calls to be paid and in the times of payment.

19. The directors may, if they think fit, receive from any member willing to advance the same all or any part of the moneys uncalled and unpaid upon any shares held by him; and upon all or any of the moneys so advanced may (until the same would, but for such advance, become presently payable) pay interest at such rate (not exceeding without the sanction of the company in general meeting, 6 per cent) as may be agreed upon between the member paying the sum in advance and the directors.

Transfer and Transmission of Shares.

20. The instrument of transfer of any share in the company shall be executed by both the transferor and the transferee, and the transferor shall be deemed to remain a holder of the share until the name of the transferee is entered in the register of members in respect thereof.

21. Shares in the company shall be transferred in the following form, or in any usual or common form which the directors shall approve—

"I, A B of _____ in consideration of the sum of £ _____ paid to me by C D of _____ (hereinafter called "the said transferee") do hereby transfer to the said transferee the share [or shares] numbered _____ in the undertaking called the _____ Company, Limited, to hold unto the said transferee, his executors, administrators, and assigns, subject to the several conditions on which I held the same at the time of the execution hereof: and I, the said transferee, do hereby agree to take the said share [or shares] subject to the conditions aforesaid. As witness our hands the day of _____

"Witness to the signatures of, etc."

22¹ The directors may decline to register any transfer of shares, not being fully-paid shares, to a person of whom they do not approve, and may also decline to register any transfer of shares on which the company has a lien. The directors may also suspend the registration of transfers during the fourteen days immediately preceding the ordinary general meeting in each year. The directors may decline to recognize any instrument of transfer unless—

(a) A fee not exceeding two shillings and sixpence is paid to the company in respect thereof, and

(b) The instrument of transfer is accompanied by the certificate of the shares to which it relates, and such other evidence as the directors may reasonably require to show the right of the transferor to make the transfer.

23. The executors or administrators of a deceased sole holder of a share shall be the only persons recognized by the company as having any title to the share. In the case of a share registered in the names of two or more holders, the survivors or survivor, or the executors or administrators of the deceased survivor, shall be the only persons recognized by the company as having any title to the share.

24. Any person becoming entitled to a share in consequence of the death or bankruptcy of a member shall, upon such evidence being produced as may from time to time be required by the directors, have the right, either to be registered as a member in respect of the share or, instead of

being registered himself, to make such transfer of the share as the deceased or bankrupt person could have made; but the directors shall, in either case, have the same right to decline or suspend registration as they would have had in the case of a transfer of the share by the deceased or bankrupt person before the death or bankruptcy.

25. A person becoming entitled to a share by reason of the death or bankruptcy of the holder shall be entitled to the same dividends and other advantages to which he would be entitled if he were the registered holder of the share, except that he shall not, before being registered as a member in respect of the share, be entitled in respect of it to exercise any right conferred by membership in relation to meetings of the company.

Forfeiture of Shares.

26. If a member fails to pay any call or instalment of a call on the day appointed for payment thereof, the directors may, at any time thereafter during such time as any part of such call or instalment remains unpaid, serve a notice on him requiring payment of so much of the call or instalment as is unpaid, together with any interest and expenses which may have accrued or been incurred by reason of such non-payment.

27. The notice shall name a further day (not earlier than the expiration of fourteen days from the date of the notice) on or before which the payment required by the notice is to be made, and shall state that in the event of non-payment at or before the time appointed the shares in respect of which the call was made will be liable to be forfeited.

28. If the requirements of any such notice as aforesaid are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the directors to that effect.

29. A forfeited share may be sold or otherwise disposed of on such terms and in such manner as the directors think fit, and at any time before a sale or disposition may be cancelled on such terms as the directors think fit.

30. A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares, but shall, notwithstanding, remain liable to pay to the company all moneys which, at the date of forfeiture, were presently payable by him to the company in respect of the shares, but his liability shall cease if and when the company receive payment in full of the nominal amount of the shares.

31. A statutory declaration in writing that the declarant is a director of the company, and that a share in the company has been duly forfeited on a date stated in the declaration, shall be conclusive evidence of the facts therein stated as against all persons claiming to be entitled to the

¹ In the case of a private company the words in this article, "not being fully-paid shares," should be omitted.

share, and that declaration, and the receipt of the company for the consideration, if any, given for the share on the sale or disposition thereof shall constitute a good title to the share, and the person to whom the share is sold or disposed of shall be registered as the holder of the share and shall not be bound to see to the application of the purchase money, if any, nor shall his title to the share be affected by any irregularity or invalidity in the proceedings in reference to the forfeiture, sale or disposal of the share.

34. The holders of stock may transfer the same, or any part thereof, in the same manner, and subject to the same regulations, as, and subject to which, the shares from which the stock arose might previously to conversion have been transferred, or as near thereto as circumstances admit; but the directors may from time to time fix the minimum amount of stock transferable, and restrict or forbid the transfer of fractions of that minimum, but the minimum shall not exceed the nominal amount of the shares from which the stock arose.



Photo

Kealeys, Ltd.

ENGLISH BOTTLED FRUIT STORE ROOM
(T. G. Tickler, Ltd.)

32. The provisions of these regulations as to forfeiture shall apply in the case of non-payment of any sum which, by the terms of issue of a share, becomes payable at a fixed time, whether on account of the amount of the share, or by way of premium, as if the same had been payable by virtue of a call duly made and notified.

Conversion of Shares into Stock.

33. The directors may, with the sanction of the company previously given in general meeting, convert any paid-up shares into stock, and may with the like sanction reconvert any stock into paid-up shares of any denomination.

35. The holders of stock shall, according to the amount of the stock held by them, have the same rights, privileges, and advantages as regards dividends, voting at meetings of the company, and other matters as if they held the shares from which the stock arose, but no such privilege or advantage (except participation in the dividends and profits of the company) shall be conferred by any such aliquot part of stock as would not, if existing in shares, have conferred that privilege or advantage.

36. Such of the regulations of the company (other than those relating to share warrants) as are applicable to paid-up shares shall apply to stock, and the words "share" and "shareholder" therein shall include "stock" and "stock-holder."

Share Warrants.¹

37. The company may issue share warrants, and accordingly the directors may in their discretion, with respect to any share which is fully paid up, on application in writing signed by the person registered as holder of the share, and authenticated by such evidence, if any, as the directors may from time to time require as to the identity of the person signing the request, and on receiving the certificate, if any, of the share, and the amount of the stamp duty on the warrant and such fee as the directors may from time to time require, issue under the company's seal a warrant, duly stamped, stating that the bearer of the warrant is entitled to the shares therein specified, and may provide by coupons, or otherwise, for the payment of dividends, or other moneys, on the shares included in the warrant.

38. A share warrant shall entitle the bearer to the shares included in it, and the shares shall be transferred by the delivery of the share warrant, and the provisions of the regulations of the company with respect to transfer and transmission of shares shall not apply thereto.

39. The bearer of a share warrant shall, on surrender of the warrant to the company for cancellation, and on payment of such sum as the directors may from time to time prescribe, be entitled to have his name entered as a member in the register of members in respect of the shares included in the warrant.

40. The bearer of a share warrant may at any time deposit the warrant at the office of the company, and so long as the warrant remains so deposited the depositor shall have the same right of signing a requisition for calling a meeting of the company, and of attending and voting and exercising the other privileges of a member at any meeting held after the expiration of two clear days from the time of deposit, as if his name were inserted in the register of members as the holder of the shares included in the deposited warrant. Not more than one person shall be recognized as depositor of the share warrant. The company shall, on two days' written notice, return the deposited share warrant to the depositor.

41. Subject as herein otherwise expressly provided no person shall, as bearer of a share warrant, sign a requisition for calling a meeting of the company, or attend, or vote, or exercise any other privilege of a member at a meeting of the company, or be entitled to receive any notices from the company; but the bearer of a share warrant shall be entitled in all other respects to the same privileges and advantages as if he were named in the register of members as the holder of the shares included in the warrant, and he shall be a member of the company.

¹ In the case of a private company these clauses must be omitted, for a private company cannot issue share warrants.

42. The directors may from time to time make rules as to the terms on which (if they shall think fit) a new share warrant or coupon may be issued by way of renewal in case of defacement, loss, or destruction.

Alteration of Capital.

43. The directors may, with the sanction of an extraordinary resolution of the company, increase the share capital by such sum, to be divided into shares of such amount, as the resolution shall prescribe.

44. Subject to any direction to the contrary that may be given by the resolution sanctioning the increase of share capital, all new shares shall, before issue, be offered to such persons as at the date of the offer are entitled to receive notices from the company of general meetings in proportion, as nearly as the circumstances admit, to the amount of the existing shares to which they are entitled. The offer shall be made by notice specifying the number of shares offered, and limiting a time within which the offer, if not accepted, will be deemed to be declined, and, after the expiration of that time, or on the receipt of an intimation from the person to whom the offer is made that he declines to accept the shares offered, the directors may dispose of the same in such manner as they think most beneficial to the company. The directors may likewise so dispose of any new shares which (by reason of the ratio which the new shares bear to shares held by persons entitled to an offer of new shares) cannot, in the opinion of the directors, be conveniently offered under this article.

45. The new shares shall be subject to the same provisions with reference to the payment of calls lien, transfer, transmission, forfeiture, and otherwise as the shares in the original share capital.

46. The company may, by special resolution—

(a) Consolidate and divide its share capital into shares of larger amount than its existing shares;

(b) By subdivision of its existing shares, or any of them, divide the whole, or any part, of its share capital into shares of smaller amount than is fixed by the Memorandum of Association, subject, nevertheless, to the provisions of paragraph (d) of sub-section (1) of section forty-one of The Companies (Consolidation) Act, 1908;

(c) Cancel any shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person;

(d) Reduce its share capital in any manner and with, and subject to, any incident authorized, and consent required, by law.

General Meetings.

47. The statutory general meeting of the company shall be held not less than one month nor more than three months after the company is entitled to commence business.

48. A general meeting shall be held once in every year at such time (not being more than fifteen months after the holding of the last preceding general meeting) and place as may be prescribed by the company in general meeting, or, in default, at such time in the month following that in which the anniversary of the company's incorporation occurs, and at such place, as the directors shall appoint. In default of a general meeting being so held, a general meeting shall be held in the month next following, and may be convened by any two members in the same manner as nearly as possible as that in which meetings are to be convened by the directors.

49. The above-mentioned general meetings shall be called ordinary meetings; all other general meetings shall be called extraordinary.

50. The directors may, whenever they think fit, convene an extraordinary general meeting, and extraordinary general meetings shall also be convened on such requisition, or, in default, may be convened by such requisitionists, as provided by section sixty-six of The Companies (Consolidation) Act, 1908. If at any time there are not within the United Kingdom sufficient directors capable of acting to form a quorum, any director or any two members of the company may convene an extraordinary general meeting in the same manner as nearly as possible as that in which meetings may be convened by the directors.

Proceedings at General Meetings.

51. Seven days' notice at the least (exclusive of the day on which the notice is served or deemed to be served, but inclusive of the day for which notice is given) specifying the place, the day, and the hour of meeting and, in case of special business, the general nature of that business, shall be given in manner hereinafter mentioned, or in such other manner, if any, as may be prescribed by the company in general meeting, to such persons as are, under the regulations of the company, entitled to receive such notices from the company; but the non-receipt of the notice by any member shall not invalidate the proceedings at any general meeting.

52. All business shall be deemed special that is transacted at an extraordinary meeting, and all that is transacted at an ordinary meeting, with the exception of sanctioning a dividend, the consideration of the accounts, balance sheets, and the ordinary report of the directors and auditors, the election of directors and other officers in the place of those retiring by rotation, and the fixing of the remuneration of the auditors.

53. No business shall be transacted at any general meeting unless a quorum of members is present at the time when the meeting proceeds to business; save as herein otherwise provided, three members personally present shall be a quorum.

54. If within half an hour from the time appointed for the meeting a quorum is not present,

the meeting, if convened upon the requisition of members, shall be dissolved; in any other case it shall stand adjourned to the same day in the next week, at the same time and place, and, if at the adjourned meeting a quorum is not present within half an hour from the time appointed for the meeting, the members present shall be a quorum.

55. The chairman, if any, of the board of directors shall preside as chairman at every general meeting of the company.

56. If there is no such chairman, or if at any meeting he is not present within fifteen minutes after the time appointed for holding the meeting or is unwilling to act as chairman, the members present shall choose some one of their number to be chairman.

57. The chairman may, with the consent of any meeting at which a quorum is present (and shall if so directed by the meeting), adjourn the meeting from time to time and from place to place, but no business shall be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place. When a meeting is adjourned for ten days or more, notice of the adjourned meeting shall be given as in the case of an original meeting. Save as aforesaid it shall not be necessary to give any notice of an adjournment or of the business to be transacted at an adjourned meeting.

58. At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands, unless a poll is (before or on the declaration of the result of the show of hands) demanded by at least three members, and, unless a poll is so demanded, a declaration by the chairman that a resolution has, on a show of hands, been carried, or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the book of the proceedings of the company, shall be conclusive evidence of the fact, without proof of the number or proportion of the votes recorded in favour of, or against, that resolution.

59. If a poll is duly demanded it shall be taken in such manner as the chairman directs, and the result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded.

60. In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of the meeting at which the show of hands takes place or at which the poll is demanded, shall be entitled to a second or casting vote.

61. A poll demanded on the election of a chairman, or on a question of adjournment, shall be taken forthwith. A poll demanded on any other question shall be taken at such time as the chairman of the meeting directs.

Votes of Members.

62. On a show of hands every member present in person shall have one vote. On a poll every

member shall have one vote for each share of which he is the holder.

63. In the case of joint holders the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders; and for this purpose seniority shall be determined by the order in which the names stand in the register of members.

64. A member of unsound mind, or in respect of whom an order has been made by any court having jurisdiction in lunacy, may vote, whether on a show of hands or on a poll, by his committee, *curator bonis*, or other person in the nature of a committee or *curator bonis* appointed by that court, and any such committee, *curator bonis*, or other person may, on a poll, vote by proxy.

65. No member shall be entitled to vote at any general meeting unless all calls or other sums presently payable by him in respect of shares in the company have been paid.

66. On a poll votes may be given either personally or by proxy.

67. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorized in writing, or, if the appointor is a corporation, either under the common seal, or under the hand of an officer or attorney so authorized. No person shall act as a proxy unless either he is entitled on his own behalf to be present and vote at the meeting at which he acts as proxy, or he has been appointed to act at that meeting as proxy for a corporation.

68. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority shall be deposited at the registered office of the company not less than forty-eight hours before the time for holding the meeting at which the person named in the instrument proposes to vote, and in default the instrument of proxy shall not be treated as valid.

69. An instrument appointing a proxy may be in the following form, or in any other form which the directors shall approve—

".....Company, Limited.
 " I of in the county of
 being a member of the Company, Limited,
 hereby appoint of as my proxy
 to vote for me and on my behalf at the [ordinary or
 extraordinary, as the case may be] general meeting
 of the company to be held on the day of
 and at any adjournment thereof.
 " Signed this day of ."

Directors.

70. The number of the directors and the names of the first directors shall be determined in writing by a majority of the subscribers of the memorandum of association.

71. The remuneration of the directors shall from time to time be determined by the company in general meeting.

72. The qualification of a director shall be the holding of at least one hundred shares in the company, and it shall be his duty to acquire such qualification within one month after his appointment.

Powers and Duties of Directors.

73. The business of the company shall be managed by the directors, who may pay all expenses incurred in getting up and registering the company, and may exercise all such powers of the company as are not, by The Companies (Consolidation) Act, 1908, or any statutory modification thereof for the time being in force, or by these articles, required to be exercised by the company in general meeting, subject nevertheless to any regulation of these articles, to the provisions of the said Act, and to such regulations, being not inconsistent with the aforesaid regulations or provisions, as may be prescribed by the company in general meeting; but no regulation made by the company in general meeting shall invalidate any prior act of the directors which would have been valid if that regulation had not been made.

74. The directors may from time to time appoint one or more of their body to the office of managing director or manager for such term, and at such remuneration (whether by way of salary, or commission, or participation in profits, or partly in one way and partly in another) as they may think fit, and a director so appointed shall not, while holding that office, be subject to retirement by rotation, or taken into account in determining the rotation of retirement of directors; but his appointment shall be subject to determination *ipso facto* if he ceases from any cause to be a director, or if the company in general meeting resolve that his tenure of the office of managing director or manager be determined.

75. The amount for the time being remaining undischarged of moneys borrowed or raised by the directors for the purposes of the company (otherwise than by the issue of share capital) shall not at any time exceed the issued share capital of the company without the sanction of the company in general meeting.

76. The directors shall duly comply with the provisions of The Companies (Consolidation) Act, 1908, or any statutory modification thereof for the time being in force, and in particular with the provisions in regard to the registration of the particulars of mortgages and charges affecting the property of the company, or created by it, and to keeping a register of the directors, and to sending to the Registrar of Companies an annual list of members, and a summary of particulars relating thereto, and notice of any consolidation or increase

of share capital, or conversion of shares into stock, and copies of special resolutions, and a copy of the register of directors and notifications of any changes therein.

77. The directors shall cause minutes to be made in books provided for the purpose—

(a) Of all appointments of officers made by the directors ;

to any instrument except by the authority of a resolution of the board of directors, and in the presence of at least two directors and of the secretary or such other person as the directors may appoint for the purpose ; and those two directors and secretary or other person as aforesaid shall sign every instrument to which the seal of the company is so affixed in their presence.



By permission

SECTION OF ART METAL FACTORY
(Roneo Works)

Roneo, Ltd.

(b) Of the names of the directors present at each meeting of the directors and of any committee of the directors ;

(c) Of all resolutions and proceedings at all meetings of the company, and of the directors and of committees of directors, and every director present at any meeting of directors or committee of directors shall sign his name in a book to be kept for that purpose.

The Seal.

78. The seal of the company shall not be affixed

Disqualification of Directors.

79. The office of director shall be vacated if the director—

(a) Does not acquire his qualification within one month after his appointment or after the expiration of that time ceases to hold his qualification ; or

(b) Holds any other office of profit under the company except that of managing director or manager ; or

(c) Becomes bankrupt ; or

(d) Is found lunatic or becomes of unsound mind ; or

(e) Is concerned or participates in the profits of any contract with the company ;

Provided, however, that no director shall vacate his office by reason of his being a member of any company which has entered into contracts with or done any work for the company of which he is director : but a director shall not vote in respect of any such contract or work, and if he does so vote his vote shall not be counted.

Rotation of Directors.

80. At the first ordinary meeting of the company the whole of the directors shall retire from office, and at the ordinary meeting in every subsequent year one-third of the directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to one-third, shall retire from office.

81. The directors to retire in every year shall be those who have been longest in office since their last election, but as between persons who became directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot.

82. A retiring director shall be eligible for re-election.

83. The company at the general meeting at which a director retires in manner aforesaid may fill up the vacated office by electing a person thereto.

84. If at any meeting at which an election of directors ought to take place the places of the vacating directors are not filled up, the meeting shall stand adjourned till the same day in the next week at the same time and place, and, if at the adjourned meeting the places of the vacating directors are not filled up, the vacating directors, or such of them as have not had their places filled up, shall be deemed to have been re-elected at the adjourned meeting.

85. The company may from time to time in general meeting increase or reduce the number of directors, and may also determine in what rotation the increased or reduced number is to go out of office.

86. Any casual vacancy occurring in the board of directors may be filled up by the directors, but the person so chosen shall be subject to retirement at the same time as if he had become a director on the day on which the director in whose place he is appointed was last elected a director.

87. The directors shall have power at any time, and from time to time, to appoint a person as an additional director, who shall retire from office at the next following ordinary general meeting, but shall be eligible for election by the company at that meeting as an additional director.

88. The company may by extraordinary resolution remove any director before the expiration of his

period of office, and may by an ordinary resolution appoint another person in his stead ; the person so appointed shall be subject to retirement at the same time as if he had become a director on the day on which the director in whose place he is appointed was last elected a director.

Proceedings of Directors.

89. The directors may meet together for the despatch of business, adjourn, and otherwise regulate their meetings, as they think fit. Questions arising at any meeting shall be decided by a majority of votes. In case of an equality of votes the chairman shall have a second or casting vote. A director may, and the secretary on the requisition of a director shall, at any time summon a meeting of the directors.

90. The quorum necessary for the transaction of the business may be fixed by the directors.

91. The continuing directors may act notwithstanding any vacancy in their body, but, if and so long as their number is reduced below the number fixed by or pursuant to the regulations of the company as the necessary quorum of directors, the continuing directors may act for the purpose of increasing the number of directors to that number, or of summoning a general meeting of the company, but for no other purpose.

92. The directors may elect a chairman of their meetings and determine the period for which he is to hold office ; but, if no such chairman is elected, or if at any meeting the chairman is not present within five minutes after the time appointed for holding the same, the directors present may choose one of their number to be chairman of the meeting.

93. The directors may delegate any of their powers to committees consisting of such member or members of their body as they think fit ; any committee so formed shall in the exercise of the powers so delegated conform to any regulations that may be imposed on them by the directors.

94. A committee may elect a chairman of their meetings : if no such chairman is elected, or if at any meeting the chairman is not present within five minutes after the time appointed for holding the same, the members present may choose one of their number to be chairman of the meeting.

95. A committee may meet and adjourn as they think proper. Questions arising at any meeting shall be determined by a majority of votes of the members present, and in case of an equality of votes the chairman shall have a second or casting vote.

96. All acts done by any meeting of the directors or of a committee of directors, or by any person acting as a director, shall, notwithstanding that it be afterwards discovered that there was some defect in the appointment of any such directors or persons acting as aforesaid, or that they or any of them were disqualified, be as valid as if

every such person had been duly appointed and was qualified to be a director.

Dividends and Reserve.

97. The company in general meeting may declare dividends, but no dividend shall exceed the amount recommended by the directors.

98. The directors may from time to time pay to the members such interim dividends as appear to the directors to be justified by the profits of the company.

may be properly applied, and pending such application may, at the like discretion, either be employed in the business of the company or be invested in such investments (other than shares of the company) as the directors may from time to time think fit.

102. If several persons are registered as joint holders of any share any one of them may give effectual receipts for any dividend payable on the share.

103. Notice of any dividend that may have been



PHYSICAL LABORATORY AT BASINGSTOKE WORKS
(Messrs. John I. Thornycroft & Co., Ltd.)

99. No dividend shall be paid otherwise than out of profits.

100. The profits of the company in each year available for distribution among the members shall be applied, first, in payment of a dividend at the rate of 8 per cent per annum on the capital amount paid up on the preference shares, and the balance shall be divided among the holders of ordinary shares in proportion to the amounts paid up on such shares.

101. The directors may, before recommending any dividend, set aside out of the profits of the company such sums as they think proper as a reserve or reserves which shall, at the discretion of the directors, be applicable for meeting contingencies, or for equalizing dividends, or for any other purpose to which the profits of the company

declared shall be given in manner hereinafter mentioned to the persons entitled to share therein.

104. No dividend shall bear interest against the company.

Accounts.

105. The directors shall cause true accounts to be kept—

Of the sums of money received and expended by the company and the matter in respect of which such receipt and expenditure takes place, and

Of the assets and liabilities of the company.

106. The books of account shall be kept at the registered office of the company, or at such other place or places as the directors think fit, and shall always be open to the inspection of the directors.

107. The directors shall from time to time

determine whether and to what extent and at what times and places and under what conditions or regulations the accounts and books of the company or any of them shall be open to the inspection of members not being directors, and no member (not being a director) shall have any right of inspecting any account or book or document of the company except as conferred by statute or authorized by the directors or by the company in general meeting.

108. Once at least in every year the directors shall lay before the company in general meeting a profit and loss account for the period since the preceding account or (in the case of the first account) since the incorporation of the company, made up to a date not more than six months before such meeting.

109. A balance sheet shall be made out in every year and laid before the company in general meeting made up to a date not more than six months before such meeting. The balance sheet shall be accompanied by a report of the directors as to the state of the company's affairs, and the amount which they recommend to be paid by way of dividend, and the amount, if any, which they propose to carry to a reserve fund.

110. A copy of the balance sheet and report shall, seven days previously to the meeting, be sent to the persons entitled to receive notices of general meetings in the manner in which notices are to be given hereunder.

Audit.

111. Auditors shall be appointed and their duties regulated in accordance with sections one hundred and twelve and one hundred and thirteen of The Companies (Consolidation) Act, 1908, or any statutory modification thereof for the time being in force.

Notices.

112. A notice may be given by the company to any member either personally or by sending it by post to him to his registered address, or (if he has no registered address in the United Kingdom) to the address, if any, within the United Kingdom supplied by him to the company for the giving of notices to him.

Where a notice is sent by post, service of the notice shall be deemed to be effected by properly addressing, prepaying, and posting a letter containing the notice, and unless the contrary is proved to have been effected at the time at which the letter would be delivered in the ordinary course of post.

113. If a member has no registered address in the United Kingdom and has not supplied to the company an address within the United Kingdom for the giving of notices to him, a notice addressed to him and advertised in a newspaper circulating in the neighbourhood of the registered office of the company, shall be deemed to be duly given to him on the day on which the advertisement appears.

114. A notice may be given by the company to the joint holders of a share by giving the notice to the joint holder named first in the register in respect of the share.

115. A notice may be given by the company to the persons entitled to a share in consequence of the death or bankruptcy of a member by sending it through the post in a prepaid letter addressed to them by name, or by the title of representatives of the deceased, or trustee of the bankrupt, or by any like description, at the address, if any, in the United Kingdom supplied for the purpose by the persons claiming to be so entitled, or (until such an address has been so supplied) by giving the notice in any manner in which the same might have been given if the death or bankruptcy had not occurred.

SECTION 48

Company Secretarial Work

By ERNEST J. HAMMOND, A.C.I.S., *Chartered Secretary*

CHAPTER I INTRODUCTORY

THE incorporation of companies and their accounts being dealt with in separate sections of this work, the scope of the present section is the routine work of company secretaries.

The principal Act of Parliament affecting limited companies is the Companies (Consolidation) Act, 1908, referred to in this section as the "1908 Act." Other Acts are the Companies Act, 1913, amending the law as to private companies; the Companies (Particulars as to Directors) Act, 1917, and the Companies (Foreign Interests) Act, 1917.

Statutory or "parliamentary" companies (i.e. railway, gas, water companies, etc., incorporated by special Act of Parliament) are governed by the provisions of the Companies (Clauses) Act, 1845, as modified by their special Act. Whilst these companies are outside the scope of the present section, it may be stated that the general principles governing the secretarial work of such companies are very similar to those governing companies incorporated under the 1908 Act.

Memorandum and Articles.

The memorandum of association, *inter alia*, defines the company's powers and objects whilst the articles of association are the regulations for the management of the company's business, defining the duties and powers of the directors, and the rights and privileges of the shareholders.

Table A of the 1908 Act is a model set of articles of association which may be adopted (with or without modification) or alternatively, special articles may be registered.

Share Capital.

The amount of share capital and its division into shares is stated in the memorandum. Where different classes of capital exist, e.g. preference and ordinary shares, particulars may be stated in the memorandum, but the modern method is to state only a summary of the nominal capital in the memorandum whilst its division into different classes and the respective rights of each class is set out in the articles. By the latter method, the revision of preferential rights, etc., may be accomplished by special resolution, but in the former method the procedure outlined in

Sec. 45 of the 1908 Act must be followed and the sanction of the Courts obtained.

Management.

The persons appointed to manage the company's business are usually termed "Directors," but they may be otherwise described, e.g. president, governor or manager. Sec. 285 of the 1908 Act provides that the expression "director" includes "any person occupying the position of director by whatever name called." From some points of view, directors are trustees for the shareholders; from other aspects, they are agents or managing partners.

Directors may be appointed by (1) the articles, (2) the signatories to the memorandum and articles, (3) the shareholders in general meeting, and (4) other directors to fill a casual vacancy.

The articles generally contain regulations determining the directors' authority and the extent of their power to conduct the company's business. In most cases, the articles authorize the directors to delegate their powers or some of them to a "committee of their number" and the "committee" may consist of one person.

Board Meetings.

The company's business is, generally speaking, transacted by the directors at these meetings and, unless expressly authorized by the articles, the directors cannot act without meeting as a board. But, more generally, questions of policy are decided at Board Meetings and the managing director or other officials are "directed" to give effect to the directors' decisions.

Shareholders' Meetings.

At these meetings, the directors' report of the company's progress is submitted for approval, and various other matters, which are reserved by statute or the company's articles for decision by the shareholders, are put forward for consideration. The conduct and procedure at board and shareholders' meetings are dealt with in a separate section of this work. (See Section 51.)

Private Companies.

Under the provisions of Sec. 121 of the 1908 Act (as amended by the 1913 Act) a private company is one which, by its articles

- (1) Restricts the right to transfer its shares;
- (2) Limits the number of its members (exclusive of

(3) Prohibits any invitation to the public to subscribe for shares or debentures in the company.

Privileges of Private Companies.

6. Exemption from the requirement to include in the Annual Return a "Statement in the form of a Balance Sheet." (Sec. 26, s.s. 3.)

CHAPTER II

APPLICATION FOR AND ALLOT- MENT OF SHARES

UPON incorporation, the first necessity is to obtain the trading capital of the company, and this may be arranged privately or by public subscription.

Prospectus.

With the prospectus, application forms are enclosed, and if the share capital is divided into different classes, distinctively coloured forms will be issued for each class. A specimen form is given on the next page. Applicants must send these forms, with the application money, to the company's bankers, by whom they are listed and entered in the Bank Pass Book. The amount payable on application must not be less than 5 per cent of the nominal amount of the shares.

Allotment Sheets.

For small issues, the entries on these sheets may be made to correspond with the banker's lists, but with large issues it is more convenient to re-arrange the application forms alphabetically and use separate sheets for each letter of the alphabet. In this way, the work may be divided amongst several clerks. Each sheet is separately totalled and a final summary sheet compiled to record the totals of the separate sheets. After the allotment is completed, the sheets may be bound in book form.

Minimum Subscription.

Under Sec. 85 of the 1908 Act, the minimum subscription fixed by the memorandum or articles and stated in the prospectus must be subscribed before the directors can proceed to allotment. When no amount is so fixed and stated the whole amount offered must be subscribed.

APPLICATION AND ALLOTMENT SHEETS

Date.	Applica- tion No.	NAME.		Address and Occupation.	Shares Applied for,	Paid on Deposit.			Allot- ment No.	Shares Allotted.	Total Due on Application and Allotment.		
		Surname.	Christian.			£	s.	d.			£	s.	d.
						£	s.	d.			£	s.	d.

[CONTINUATION]

Balance Payable on Allotment.			Amount Returned.			Date Paid.	C.B. Fol.	Distinctive Nos.		Share Cert. No.	Reg. of Mem. Fol.	Remarks.
<i>£</i>	<i>s.</i>	<i>d.</i>	<i>£</i>	<i>s.</i>	<i>d.</i>			From.	To.			



Photo

A FINE INTERIOR DISPLAY
(Kennards Ltd.)

Kentley, Ltd.

Frontispiece

This Sheet must be filled up and sent ENTIRE, together with the sum payable on Application, to THE BANK OF LONDON, LIMITED, Moorgate Street, London, E.C.2.

APPLICATION FORM

No. of Application.....

No. of Allotment.....

THE BLANK COMPANY, LIMITED

Issue of 5,000 Ordinary Shares of £10 each

To the Directors of

THE BLANK COMPANY, LIMITED.

GENTLEMEN,

Having paid to THE BANK OF LONDON, LIMITED, the sum of £..... being a Deposit of £..... per Share in respect of..... Ordinary Shares of £..... each in the above Company, I request you to allot me that number of Shares, and I agree to accept the same or any less number that may be allotted to me upon the terms of the Prospectus dated, 19....., and subject to the Regulations of the Company, and to pay the further instalments thereon in accordance with the terms of the said Prospectus.

Signature

Name (in full)

Address (in full)

PLEASE WRITE
DISTINCTLY.

Profession or Occupation

Date 19.....

THE BLANK COMPANY, LIMITED

No. of Application.....

RECEIPT FOR DEPOSIT ON APPLICATION

RECEIVED the.....day of.....19..

from

the sum of.....Pounds.....Shillings, being

a deposit of per Share on an application for an Allotment of.....

Ordinary Shares of £..... each in the above Company.

For THE BANK OF LONDON, LIMITED,

£ : :

STAMP.

Cashier.

The Allotment.

When the minimum subscription is reached, the cheques cleared by the company's bankers and the lists closed, a board meeting must be convened to consider the applications and make the allotment. The application sheets should be initialed by the chairman, and on the summary sheet a note of the total allotment made, thus—

“ shares allotted.... day of.... 19..
.....Chairman.”

A minute of the proceedings and resolution of allotment must be recorded in the minute book.

If the allotment is not made within forty days after the first issue of the prospectus, the whole of the money subscribed must be returned to the applicants. (Sec. 85, s.s. 4 of the 1908 Act.)

Withdrawals.

Any applicant may withdraw his application and be entitled to a return of the money deposited, at any time prior to the posting of the letter announcing the allotment. Posting of the allotment letter completes the contract, which then becomes irrevocable and binds both the company and the allottee. Any subsequent notice of withdrawal has no effect. A record of the posting of the allotment letters (date, time, place and by whom) should, therefore, be kept.

Allotment Letter.

This may be in the form shown inset. Where, however, the prospectus provides for payment of the share capital in instalments, the allotment letter commonly provides receipt forms for the instalments and perforated slips which are detached by the bank upon payment and retained as the company's voucher.

Stamp Duties.

Letters of allotment require an impressed stamp of one penny where the total value of the shares allotted is less than £5. Where the nominal value is £5 and upwards, the stamp duty (impressed) is sixpence.

Commencement of Business.

After the company has gone to allotment, a Statutory Declaration must be made by one of the directors or secretary that the requirements of Sec. 87 of the 1908 Act as to the minimum subscription, etc., have been duly complied with. This declaration must be filed with the Registrar of Companies who thereupon issues the certificate entitling the company to commence business. This requirement does not apply to private companies who are able to commence business immediately upon incorporation.

Return of Allotments.

Within one month from the date of allotment, this return must be filed with the Registrar of Companies. The return must state—

- (1) The number and nominal amount of the shares allotted, distinguishing the various classes of shares.
- (2) The amount due or payable on each share.
- (3) Particulars of the shares allotted for a consideration other than cash, and the amount treated as paid on each share.
- (4) The names, addresses, and occupations or descriptions of the allottees.

The contract, constituting the title of the allottee to shares allotted for a consideration other than cash, also must be filed with the Registrar and if the contract is not reduced to writing, particulars of the contract, duly stamped according to its nature, must be filed.

The statutory enactments relating to allotment are contained in Sec. 85 to 88 of the 1908 Act.

CHAPTER III

CALLS

THE term “call” is generally used to denote the instalments on the shares payable subsequent to the amount due on allotment. The amount of, and the intervals between, each instalment are regulated by the company's articles of association.

How Made.

Where the instalments are payable on definite dates stated in the prospectus, the allotment letter commonly provides particulars of the amounts due with receipt forms appended, and similarly the Allotment Sheets will provide extra columns for these instalments.

But the conditions of issue sometimes provide for the payment of, say, 2s. 6d. per £1 share on application and 7s. 6d. on allotment; the balance of 10s. 0d. per share being callable as and when required by the company. In such cases, the articles usually authorize the directors to make calls. Table A, clause 12, provides that “no call shall exceed one-fourth of the nominal amount of the shares or be payable at less than one month from the last call.” It is also customary to provide for the payment of interest on overdue calls.

At a duly convened board meeting the directors must formally resolve to make the call, fixing the date and place of payment. Under Table A, fourteen days' notice must be given.

Call Book or Sheets.

These may be prepared in the form shown at foot of p. 1068.

Where two calls are payable at short intervals, additional columns may be provided to record

This form, with remittance, must be forwarded entire to the Company's Bankers, who will return it duly receipted
carefully preserved to be subsequently exchanged for the Share Certificate.

ALLOTMENT LETTER

A.

THE BLANK COMPANY, LIMITED.

No.....

Issue of.....Ordinary Shares of £1 each.



LONDON, E.C.

....., 19..

SIR,—

In response to your application, the Directors have allotted you.....Ordinary Shares of £1 each in this company, in accordance with the terms of the Prospectus dated, 19..

The amount payable on Application and Allotment at.....per share is £

You have already paid £

The Balance due from you on allotment is £

which I am instructed to request you to pay on or before the....., 19.., to the company's bankers, the Bank of London, Limited, Moorgate Street, E.C.2.

By order of the Board,

.....Secretary.

RECEIVED for account of THE BLANK COMPANY, LIMITED, the sum of.....pounds £.....shillings.

For THE BANK OF LONDON, LIMITED,

.....Cashier.

....., 19..

..... PERFORATED

ALLOTMENT.

No....., 19..

THE BLANK COMPANY, LIMITED.

Name.....

£ : :
.....

C 1.

No.

LONDON, E.C.

....., 19..

....., *Secretary.*

To.....

. (PERFORATED)

$$f \quad \quad \quad \cdot \quad \quad \cdot$$

.....Cashier



By permission

A DESPATCH WAREHOUSE AT BOURNVILLE

Messrs. Cadbury Bros., Ltd.

particulars, but if there is a long interval of time it is better to prepare separate call sheets for each call.

Call Letter.

A call letter giving notice, in accordance with the company's articles, of the directors' decision must be issued to each shareholder. It must be clearly marked "FIRST CALL," "SECOND CALL," etc., and show the amount called up per share, the total amount payable and also the total amount which will then be paid on the shares, e.g. "making the shares 15s. paid." A specimen call letter is given inset.

Calls Paid in Advance.

Many shareholders prefer to pay calls in advance and it may be useful to provide an extra column either on the allotment sheets or on the call sheets to record such payments. Where the articles so authorize, interest may be paid by the company on these advance payments.

Lien on Shares.

Usually, the articles give the company a lien on partly-paid shares for any debts due by the shareholder to the company, e.g. for unpaid calls. (See Table A, clauses 9 to 11.) With some companies, the lien extends to fully-paid shares, but this extension is objected to by the Committee of the Stock Exchange.

Forfeiture.

It is customary to provide in the articles that, in the event of members failing to pay calls on instalments at the appointed date, the shares are liable to be forfeited. Usually, notice must be given to the shareholder that the directors will proceed to forfeit the shares unless the calls due plus interest are paid by a stated date.

After the directors have passed the resolution of forfeiture, the shareholder loses all right or interest in his shares and ceases to be a member of the company. Although the shares are forfeited the shareholder may still be liable to pay the calls and interest to the date of forfeiture, if the articles so provide.

The provisions of the articles must be strictly observed; any irregularity or deviation from the authorized procedure will render the forfeiture invalid. When the articles do not authorize forfeiture, the company must apply to the Courts for sanction.

CHAPTER IV

SHARE CERTIFICATES

SEC. 23 of the 1908 Act provides that a certificate under the common seal of the company shall be *prima facie* evidence of the title of the members to the shares or stock.

Certificates are commonly issued in the form shown on p. 1069. Usually, they are signed by two directors and the secretary.

Issue of Certificates.

Under Sec. 92, companies must issue certificates within two months after the allotment of any shares, debentures, etc., or within two months of the registration of any such shares, debentures, etc., unless the conditions of issue otherwise provide.

Where the full nominal amount of the shares is to be called up during a period of, say, three months from the date of allotment it is a convenient practice to defer the issue of certificates until the shares are fully paid, but the prospectus must so provide. This practice avoids the large amount of clerical labour involved in issuing certificates for partly-paid shares and, subsequently, endorsing thereon the payment of various calls.

Certificates are always printed and bound in book form, perforations dividing the certificate from the counterfoil. Sometimes a receipt form, as shown in the specimen, is attached to the certificate.

Where distinctive classes of shares are issued (e.g. Preference and Ordinary) distinctive colours should be used, either in the paper itself or in the printing, and these colours should correspond with the colours used for the application and allotment forms, and call letters for each class of share.

CALL SHEET

Reg. of Mem. Fol.	Call Letter No.	SHAREHOLDERS.		No. of Shares.	Amount.			Date Paid.	C.B. Fol.	Remarks.
		Name.	Address.							
					£	s.	d.			

Joint Accounts.

Where shares are held jointly the articles commonly provide that only one certificate shall be issued, and delivery to one of the joint holders shall be deemed delivery to all. (*See* Table A, clause 6.) The general practice is to treat the first-named holder as the representative of the other holders.

Lost Certificates.

Occasionally, shareholders lose their allotment letters, call receipts, and sometimes their share certificates. In such cases, the directors are authorized by the articles to issue new share certificates upon such terms as to evidence and indemnity as they think fit. (*See* Table A, clause 7.) A specimen letter of indemnity is appended. It may be advisable to obtain also a Statutory Declaration from the shareholder narrating the circumstances with particulars of the certificate and declaring that he has not sold, pledged or otherwise parted with his interest in the shares. Some companies require a banker's guarantee or other surety.

LETTER OF INDEMNITY

(Address) _____

THE DIRECTORS,
THE BLANK CO., LTD.

Gentlemen,—

The original certificate No. _____ for _____ shares in the above company having been mislaid, destroyed or lost, I hereby undertake, in consideration of the company issuing to me a new share certificate for the above-mentioned shares, to indemnify the company against all loss, damages, costs and expenses which may be paid, incurred or sustained by the company by reason or in consequence of the original certificate having been mislaid, destroyed or lost, or by reason or in consequence of the issue to me of a new certificate.

Dated this _____ day of _____, 19____.

Witness

_____ (Signature) _____

6d.
STAMP

A similar indemnity, adapted to the circumstances, may be used for lost allotment letters, lost transfers or lost dividend warrants.

CHAPTER V

STATUTORY BOOKS

UNDER the 1908 Act the following books must be kept by all companies—

Register of Members, Register of Directors, Annual Return and Summary, Register of Mortgages and Charges, and Minute Books.

COUNTERFOIL

No. 19..

Name.....

Shares.....

Nos..... to

Certificate sent to.....

on 19..

Registers of Members

Folio

ORDINARY SHARE CERTIFICATE

THE BLANK COMPANY, LIMITED

Incorporated under the Companies Acts, 1908 to 1917.

Shares

No.

CAPITAL £.....

Divided into Ordinary Shares of £1 each.

THIS IS TO CERTIFY that of is the registered holder of fully-paid ORDINARY SHARES of one pound each, numbered to subject to the Memorandum and Articles of Association of the Company.

Given under the Common Seal of the Company this day of 19..

Director.

Director.

Secretary.

No transfer of any of the above-mentioned shares can be registered without the production of this certificate.

THE BLANK
COMPANY,
LIMITED.

No.

RECEIVED this

day of

19..

Share Certificate as numbered herein for

Ordinary Shares.

(Signature)

This receipt is to be detached, filled in, and forwarded to the Secretary.

Sec. 25 of the 1908 Act provides that the following information shall be entered in this register—

1. Names, addresses and occupations of the members.
2. Where the company has a share capital, particulars of the shares held with their distinctive numbers, and the amount paid or agreed to be considered as paid on each share.
3. Date of entry as a member and the date of ceasing to be a member.

The cash account may, of course, be omitted when the shares are fully paid.

Rectification of Register.

Sec. 32 of the 1908 Act provides that if a person's name is, without sufficient cause, entered in or omitted from the register, or where default is made or unnecessary delay takes place in entering the fact that a person has ceased to be a member, application may be made to the courts to rectify the register.

Under the provisions of Sec. 30 the register must be open to inspection by members gratis, and by other persons upon payment of a fee not exceeding one shilling. Inspection must take place during

business hours. The register must be open to inspection at least two hours daily (except when the register is closed under Sec. 31) but the company may impose any "reasonable restrictions."

Copies of the register must be supplied to any person upon payment of sixpence per 100 words or fractional part thereof required to be copied.

This register must contain a record of the names, addresses and occupations of the directors and managers. A copy must be filed with the Registrar of Companies and, from time to time, any changes in the directorate must be notified to the Registrar.

Under the provisions of the Companies (Particulars as to Directors) Act, 1917, any former christian name or surname, the nationality and nationality of origin (if other than the present nationality) and any other business occupation of the director must be shown in the register. For the last requirement where the director has some other occupation, such as solicitor, it will be sufficient to state that fact in the register and where a director's sole occupation is that of a director of various companies, the statutory requirements are sufficiently complied with by stating that he is a "Director of ——— Co., Ltd.," giving the name of one of the other companies of which he is a director.

This statement which is known as "Form E" must, under the provisions of Sec. 26 of the 1908 Act, be filed with the Registrar of Companies

REGISTER OF MEMBERS AND SHARE LEDGER

Description

Date of ceasing to be a Member.....

Dr. AMOUNTS DUE.						CASH PAID. Cr.					
Date.	Particulars.	No.	Amount.			Date.	Particulars.	C.B. Fol.	Amount.		
			£	s.	d.				£	s.	d.
	Application and Allotment, etc.						Application Allotment, etc.				

[illegible]

"once at least in every year." It must contain, *inter alia*—

1. A summary of share capital and shares issued, distinguishing between shares that have been allotted subject to payment wholly in cash and shares issued wholly or partially for a consideration other than cash.

2. A summary of mortgages and charges created and outstanding at the date of the return.

3. The amount paid by way of commission in respect of shares or debentures and the amount allowed as discount on issue of debentures.

4. Particulars of forfeited shares.

5. Particulars of share warrants issued, surrendered and outstanding.

6. A list of directors and managers.

7. Particulars of all members of the company, the shares registered in each member's name and also of those persons who have ceased to be members since the date of the last return.

A copy must be retained at the company's office, and be open to inspection by members gratis, and by other persons on payment of a fee not exceeding one shilling.

Minute Books.

Sec. 71 of the 1908 Act enacts that every company shall cause minutes of all proceedings of general meetings and of its directors to be entered in books kept for that purpose. Usually, separate books are kept for shareholders and directors' meetings.

In practice, an agenda is prepared in advance, in which is set out a summary of the business to be transacted at the meeting. The chairman's and/or the secretary's copy of the agenda is marked with particulars of the business actually transacted, and these agenda form the basis upon which the minutes are compiled.

Minutes are of two classes, viz.—minutes of narration and minutes of decisions, the former giving an explanatory account of the business brought before the meeting, and the latter recording (usually in the form of resolutions) the decisions arrived at.

Uses and Value of Minutes.

The chief use and value of the minutes are that they record a concise summary of the business transacted, are available for inspection by interested parties and are also available as evidence. Share-

holders, however, are entitled to inspect only the General Meetings Minute Book; inspection of the Board Meetings Minute Book being reserved for the directors, secretary and auditors.

Reading the Notice.

Although not required by statute, the notice convening the meeting is customarily read at general (shareholders') meetings and, in order to identify the meeting with the notice, a copy of the latter may be pasted in the minute book.

Signature.

The minutes should be signed by the chairman of that meeting or by the chairman of the next succeeding meeting; when this is done Sec. 71, s.s. 2, of the 1908 Act provides that the minutes shall be "evidence of the proceedings."

The customary practice, on opening the meeting, is for the minutes of the previous meeting to be read and, after the assent of the directors to their correctness has been obtained, the chairman adds his signature and date. For shareholders' meetings, the minutes are usually read and signed at the next succeeding board meeting.

To facilitate reference, the Minute Book should be paged and indexed, and the subject matter of each minute written in the margin.

Register of Mortgages.

This register, under the provisions of Sec. 100 of the 1908 Act, must contain particulars of all mortgages and charges specifically affecting the company's property, a short description of the property charged, the amount of the mortgage and the names of the mortgagees or other persons.

Where a debenture trust deed is entered into with trustees on behalf of the debenture holders, it is sufficient to enter in the Register of Mortgages the names of the trustees as mortgagees, and a separate register of debenture holders or debenture stock-holders is kept.

No special form is prescribed; the specimen given below is one which is in common use.

The Register of Debenture Holders or Stock-holders may be kept, *mutatis mutandis*, in similar manner to the Register of Members.

REGISTER OF MORTGAGES

No.	Date of Mortgage or Charge.	Amount.			Date Particulars filed with Registrar.	Particulars of Property Charged.	Names of Mortgagees.	Date when Redeemed.
		£.	s.	d.				

CHAPTER VI

THE COMMON SEAL

GREAT importance is attached to the common seal since its object is to provide an "official signature" of the company to the more important documents (share certificates, debentures, deeds, etc.) issued by the chief officials acting on the company's behalf. Sec. 16 of the 1908 Act provides that

key of one lock is kept by the chairman and the key of the other lock retained by the secretary. Duplicate keys of these locks may be held by different directors or, alternatively, lodged with the company's bankers.

Its Use.

The sealing of documents may be performed at board meetings and this procedure is followed where the documents are few in number. Where,



Photo

Kealeys, Ltd.

CHOCOLATE COVERING AND PACKING ROOM
(Whitefields, Ltd.)

every company must have a common seal, and Sec. 63, s.s. 1(b) enacts that its name shall be "engraved in legible characters" thereon.

Specific instructions as to the manner in which the seal is to be affixed to documents are included in the articles of association. (See Table A, clause 76.)

Custody of the Seal and its Keys.

At the first board meeting of a newly-formed company, the directors should decide as to the custody of the seal and its keys. The seal, which is usually secured by two locks attached to a bolt passing through part of its mechanism, is generally kept at the company's registered offices, whilst the

however, large numbers of documents, e.g. share certificates, have to be sealed, it is usually found more convenient to pass, at the board meeting, a resolution authorizing the seal to be affixed to certain documents and to arrange for the attendance (later) of certain directors to carry the resolution into effect.

Seal Book.

Although its use is not prescribed by statute, a Seal Book or Register should be kept to provide an adequate record of the occasions upon which the seal is used and the disposal of the sealed documents. A specimen ruling for this book is shown on the next page.

Share Transfer.

[Stock forwarded to the Company's Office

in consideration of the Sum of [See Note]
[at Foot] ,

paid by

hereinafter called the said Transferee

Do hereby bargain, sell, assign and Transfer to the said Transferee

[of and in the undertaking called the

Coupon for £

To Hold unto the said Transferee , Executors, Administrators and Assigns,
subject to the several conditions, on which held the same immediately before
the execution hereof ; and the said Transferee do hereby agree to accept and
take the said , subject to the conditions aforesaid.

As Witness our Hands and Seals, this day of
in the year of our Lord One Thousand Nine Hundred and

Signed, sealed and delivered by the above-named
in the presence of

*Witness's {
Signature
Address
Occupation

Signed, sealed and delivered by the above-named
in the presence of

*Witness's {
Signature
Address
Occupation

Signed, sealed and delivered by the above-named
in the presence of

*Witness's {
Signature
Address
Occupation

Signed, sealed and delivered by the above-named
in the presence of

*Witness's {
Signature
Address
Occupation

L.S.

L.S.

L.S.

L.S.

NOTE.—The Consideration-money set forth in a Transfer may differ from that which the first Seller will receive, owing to sub-sales by the original Buyer : The Stamp Act requires that in such cases the Consideration-money paid by the Sub-purchaser shall be the one inserted in the Deed, as regulating the *ad valorem* Duty : the following is the Clause in question—

“ Where a Person, having contracted for the purchase of any property, but not having obtained a Conveyance thereof, contracts to sell the same to any other Person, and the Property is in consequence, conveyed immediately to the Sub-purchaser, the Conveyance is to be charged with *ad valorem* Duty in respect of the Consideration moving from the Sub-purchaser.”
[Stamp Act, 1891, Section 58 (4).]

* When a Transfer is executed out of Great Britain it is recommended that the Signatures be attested by H.M. Consul or Vice-Consul, a Clergyman, Magistrate, Notary Public, or by some other person holding a Public position, as most Companies refuse to recognise Signatures not so attested.

CHAPTER VII

TRANSFER OF SHARES

THE right to transfer is conferred by Sec. 22 of the 1908 Act, which provides that "the shares or other interest in a company shall be personal estate, transferable in manner provided by the articles of the company." Unless the articles provide for the restriction of this right, directors are compelled to register all transfers submitted to them.

The articles, however, commonly restrict the right to transfer. For example, directors may be authorized to decline a transfer without giving any reason and also to refuse registration of a transfer of shares upon which the company has a lien. The transfer of partly-paid shares is frequently restricted by a clause authorizing the directors to decline registration of a transfer to a person of whom they do not approve.

With private companies, the restriction of the right to transfer shares is a statutory necessity. (Sec. 121 of the 1908 Act.)

Where registration of a transfer is improperly withheld, application may be made to the Court for rectification of the register. (Sec. 32 of the 1908 Act.)

Method of Transfer.

Transfers must be in the form and manner prescribed in the company's articles, and this may be "by deed" or by "an instrument in writing." From a legal viewpoint, the important difference between these two methods is that a "deed" requires sealing and delivery, whilst an "instrument in writing" needs signing only. In practice, however, all deeds are signed as well as being "sealed and delivered."

The operative clause of a deed reads thus—

As witness our hands and seals this ____ day of _____.

Signed, sealed and delivered by the
above-named _____ in the presence
of _____

(L.S.)

For an instrument in writing, however, the clause reads—

As witness our hands this ____ day of _____.

Witness to the signature of the above-
named _____

Moreover, a deed must be completed at the time of its delivery, otherwise it is inoperative as a deed. But an instrument "under hand" may be partially executed, i.e. a blank transfer in which the name of the transferee is omitted, and still retain its legal effect.

Blank transfers are sometimes executed by a transferor and used in connection with temporary loans for which the shares form collateral security. The share certificate and blank transfer are deposited with the lender. If the loan is repaid, the documents are returned, but if the borrower defaults the lender completes the blank transfer by the insertion of his own name (or that of a nominee) and signature in the usual manner. The completed documents are then lodged with the company for registration.

The form given in Table A, clause 19, is an "instrument in writing," but special articles more usually provide that "the instrument of transfer of any share shall be in writing in the usual common form." The latter is a deed.

Effect of Transfer.

The instrument of transfer is the authority for the company to alter its Register of Members, and its effect is that the member "transfers all his rights and obligations as a member from the date of transfer. He does not transfer his rights to dividends or bonuses already declared nor does he transfer liabilities in respect of calls already made; but he transfers his rights to future payments and his liabilities to future calls." (*Taylor, Phillips and Richards' Case*, 1897, 1 Ch. 305.)

The precise rights of the transferor and transferee (as between themselves) is determined by the sale contract, and the sale may be either *cum div.* or *ex div.* (with or without the pending

SEAL BOOK

Date of Sealing.	Date of Resolution Authorizing Use of Seal.	Particulars of Documents.	No. of Documents Sealed.	Initials : Directors and Secretary.	How Disposed of.	Remarks.

dividend). Moreover, it may be arranged that the purchaser will pay an outstanding call.

The company is not a party to the sale contract and is, of course, unaware of its terms. Hence, the universal practice is to pay the dividends, at their due date, to the shareholder whose name is registered in the company's books. Where the transferee is entitled to the dividend, he must claim it from the transferor. If a call is outstanding, the common practice is to require the call to be paid before a transfer can be accepted for registration.

Certification of Transfers.

A certified transfer is one which bears a statement (usually in the top left-hand corner) that the relative share certificate has been deposited with the company. This arises when the seller disposes of part only of the shares represented by the certificate. The transfer form, executed by the transferor and with the transferee's name stated therein is presented to the company, accompanied by the share certificate. The latter is retained by the company and cancelled, whilst the transfer is certified by the secretary in the following manner—

CERTIFICATE for _____ shares _____ paid lodged at the company's office.	
FOR THE BLANK COMPANY, LTD.	
No. _____	_____
_____, 19__.	Secretary.

It is then returned to the broker for the transferor with a Balance Ticket for the remainder of the shares represented by the certificate. The transferor's broker then delivers the certified transfer to the broker acting for the transferee and, in due course, the latter completes the transfer which is subsequently lodged with the company for registration.

Legally, the effect of certification is to show that, *prima facie*, the transferor is entitled to the shares named in the transfer. It does not amount to a warranty of the transferor's title or to the validity of the documents. (*Bishop v. Balkis Consolidated Co.*, 1890, 27 Q.B.D. 520.) But where a transfer was certified by a proper officer of the company that the shares were fully paid and the transferee, in good faith, completed the shares on that basis, it was held that the company were estopped from denying that the shares are fully paid. (*Re Concessions Trust*, McKay's case, 1896, 2 Ch. 757.)

A record of the transfers certified should be endorsed upon the back of the cancelled share certificate and particulars entered in a Register of Certified Transfers for which a specimen

ruling is appended. No fee is charged for certification.

LEFT-HAND RULING

Certi- fication. No.	Date Certi- fied.	Pre- sented by	Trans- feror's Name.	No. of Shares.	Certificate Surrendered.		Balance Ticket.	
					No. of No. Shares.	No.	No. of No. Shares.	No.

RIGHT-HAND RULING

Transferee's Name.	Date Lodged.	Transfer No.	Lodged by	Remarks.

Balance Ticket.

This entitles the transferor to a new certificate for the remainder of the shares. Many companies, however, issue new certificates only when specially requested, as the shareholder may present further transfers for certification, in which case he surrenders the balance ticket receiving a new balance ticket if any shares are still left unsold. The tickets may be bound in books with duplicate sheets interleaved for use with pen-carbons, or, alternatively, with counterfoils as in an ordinary cheque book.

THE BLANK COMPANY, LIMITED

BALANCE TICKET

No.
LONDON, E.C.
....., 19..
Received Share Certificate No. in name of for shares Nos. — to —
Against which transfer has been certified for shares Nos. — to —
Balance due shares Nos. — to —
Issued to M. For THE BLANK CO., LTD., Secretary.

Note.—Further transfers against this balance can only be certified against the production of this ticket. A new certificate will be prepared only upon receipt of written request. Fee for new certificate, One £hilling.

Lodgment for Registration.

When completed, the transfer is lodged with the company for registration accompanied (unless it is a certified transfer) by the share certificate. The registration fee is 2s. 6d. Before acceptance, the documents must be examined to ascertain that they are complete and in correct form. The

name is substituted, a certificate that there has been no subsale.

Transfers executed out of the United Kingdom should be attested by a British consul, notary public or magistrate, or alternatively, the signature guaranteed by a bank. The attestation of a transfer executed by an illiterate or infirm person should state that the document was read over and



By permission

TURNING AND MILLING DEPARTMENT
(Roneo Works)

Roneo, Ltd.

transfer must be correctly stamped, dated, the company's name correctly given, the distinctive numbers of the shares correctly entered and in agreement with the numbers appearing on the share certificate, executed by both transferor and transferee, their signatures properly witnessed, the occupation or description of the transferee stated and, finally, the signature of the transferor compared, if possible, with his signature when previously acquiring the shares. Alterations in the transfer should be initialed by both parties, but if the transferee's name has been altered an explanation must be obtained, and where a new

explained to the person and that he perfectly understood the effect thereof. In such cases, two witnesses should attest, one of whom should be a magistrate, solicitor, doctor, or other person of standing.

When shares are being transferred by personal representatives of deceased members, their representative capacity should be clearly stated in the transfer, e.g.—

A B of and C D of executors of E F deceased.

Separate transfers should be required when more than one class of share is being transferred.

Stamp Duties.

The stamp duty, which must be impressed, is in accordance with the following table—

	s.	d.
Consideration not exceeding £5	1	—
Over £5 and not exceeding £25, for each additional £5 or part thereof	1	—
Over £25 and not exceeding £300 for each additional £25 or part thereof	5	—
Over £300 for each additional £50 or part thereof	10	—

Thus, the duty on a consideration of £148 10s. 0d. is £1 10s. 0d.

For a nominal consideration the stamp duty is 10s. 0d. This duty, however, is applicable only in the following circumstances (*vide* Inland Revenue circulars)—

(a) A transfer, vesting the property in trustees on the appointment of a new trustee or the retirement of a trustee.

(b) A transfer, as for a nominal consideration, to a mere nominee of the transferor where no beneficial interest passes.

(c) A transfer by way of security for a loan; or a re-transfer to the original transferor on repayment of a loan.

(d) A transfer to a residuary legatee of stock, shares, or other marketable security which forms part of the residue divisible under a will.

(e) A transfer to a beneficiary under a will of a *specific* legacy of stock, etc.

(f) A transfer of stock, etc., being the property of a person dying intestate, to the party or parties entitled to it.

(g) A transfer to a beneficiary under a settlement, on the distribution of the trust funds, of stock, etc., forming the share or part of the share of those funds to which the beneficiary is entitled in accordance with the terms of the settlement.

Any transfers of stock, etc., by the executors of a will in discharge of a *pecuniary* legacy is, however, chargeable with *ad valorem* duty on the amount of the legacy or of such part of it as is discharged by the transfer, and this amount should be set forth in the instrument as the consideration for the transfer.

Similarly, transfers made on a sale, or in liquidation of a debt or in exchange for other securities, are subject to *ad valorem* duty on the value or agreed value of the consideration.

Transfers of stock, etc., *inter vivos* (e.g. a gift of shares by a father) are chargeable with *ad valorem* stamp duty, based on the market value of the stock, shares or other security as the consideration, and the basis of charge for stamp duty.

Secretaries and other registering officials of a company are liable to a penalty of £10 if they accept transfers incorrectly stamped. (Sec. 17 of the Stamp Act, 1891.) Where the secretary is not satisfied that the transfer is correctly stamped, he should require the transferee to have the duty adjudicated upon by the Commissioners of Inland Revenue under the provisions of Sec. 12 of the Stamp Act, 1891.

Transfer Ticket.

If the transfer documents are in order, a Transfer Ticket is issued to the transferor; this acts as

a receipt of the transfer fees and as a voucher for the issue of the new certificate. A specimen is appended.

THE BLANK COMPANY, LIMITED

TRANSFER TICKET

No.

LONDON, E.C.

.....19..

Ordinary Shares

Received from
the following Transfer Deeds for Registration,
subject to the approval of the Directors.

New Certificate will be ready for delivery in
exchange for this receipt on

For THE BLANK CO., LTD.,

.....Secretary.

Fees £ : : paid

No. of Shares.	Consecutive Nos.	In favour of
.....	 to	

The Transfer Tickets are bound in books in similar manner to the Balance Tickets described on page 1074.

Transfer Advice.

After lodgment of the transfer, a formal notice is sent to the transferor stating that a transfer deed, purporting to be executed by him and transferring shares to has been lodged for registration and that, unless notice to the contrary is given it will be assumed that the transfer is in order and will be submitted to the directors for registration in due course. This notice is a valuable precautionary measure against fraud, but a company is not bound to give such notice. Similarly, a transferor who omits to reply is not thereby estopped from denying the validity of the transfer.

Transfer Register.

Particulars are entered in this register, of which a ruling is shown on the next page, and the transfer is submitted to the directors at the next board meeting for approval. New certificates are prepared for signature and sealing at the succeeding board meeting.

The transfer must be carefully preserved; it is the evidence that the transferee has agreed to be bound by the company's regulations. Some

TRANSFER REGISTER

LEFT-HAND RULING

Date Lodged.	Date of Registration.	No. of Transfer.	Transferor.		No. of Shares.	S.L. Fol.	Distinctive Nos.	
			Name.	Address.			From	To
19..	19..							

RIGHT-HAND RULING

Transferee.			S.L. Fol.	New Cert. No.	Remarks.
Name.	Address.	Occupation.			

companies paste the transfers into guard books, but a more convenient method is to bind them into "books" of, say, 200 transfers.

Restraint of Transfer.

The legal title to shares is vested in the registered holder, but other persons may have an equitable or beneficial interest in them. Such interested persons may prevent the registration of transfers by serving a "Notice in lieu of *distringas*" upon the company. This notice, which is issued under the Rules of the Supreme Court of Judicature, has the effect of preventing the company from registering the transfer without giving the person interested an opportunity of applying to the Courts for an order to restrain registration.

The company is bound to accept and act on this notice. Entries should be made in the book reserved for these notices, and also in the shareholders' account in the Share Ledger. Should a transfer of the shares (in respect of which the notice was served) be presented for registration the company must give notice of such transfer to the person interested and to the parties serving the notice, stating that the transfer will at the expiration of eight days from date, be duly passed by the directors, unless in the meantime proceedings are taken to prevent its registration.

Whilst a notice in lieu of *distringas* is not an absolute restraint of transfer it has practically the same effect and is, comparatively, a more inexpensive method of procedure.

The payment of dividends may be restrained in a similar manner.

Forged Transfer Acts, 1891 and 1892.

Under these Acts, companies are authorized to place any reasonable restrictions upon the transfer of its shares and are also empowered to pay compensation for any loss arising either

through a forged transfer or a transfer executed under a forged power of attorney.

An additional fee (not exceeding one shilling per cent on the consideration) may be charged on all transfers to provide a fund for such payments. The adoption of these Acts is permissive and not compulsory. When adopted, the share certificates bear a declaration to the effect that "The shares of the Company are protected in terms of the Forged Transfer Acts, 1891 and 1892."

Many companies cover their possible liability by means of an insurance policy, the premium being based on the average value of the transfers registered during a stated period.

CHAPTER VIII

POWERS OF ATTORNEY

A POWER of attorney is a written authority to one person (the attorney or donee) to act for, or on behalf of another (the principal or donor). Although not essential, it is usually under seal.

Stamp Duties.

This is usually 10s. 0d., but there are certain classes for which a lower rate is levied, viz.—

	s.	d.
Power for sale, transfer or acceptance of Government Stock or Bonds not exceeding £100	2	6
Power for receipt of dividend or interest on stock (one payment)	1	—
If for more than one payment	5	—

Their Examination.

The principal is liable for all acts of his attorney within the scope of the authority delegated, hence when a power of attorney is exhibited by a donee as his authority to perform certain acts, e.g. execute transfers, great care must be observed in scrutinizing the power and ascertaining that those acts are, in fact, authorized.

The first essential feature of the examination is to see that the name, address, description and signature of the donor agrees with the company's records, the signature is duly attested and the document correctly stamped. Usually, there are two witnesses. The scope, extent and possible revocation of the authority must also receive attention.

Their Scope and Extent.

There are two classes of powers of attorney; special and general. The former delegates authority to perform one particular act or class of acts, whilst the latter more usually authorizes the donor to deal with the donor's entire business. Any limitation in the power must be carefully noted.

It must be ascertained whether the attorney has power to buy shares, sell shares, receive dividends, etc., and power to appoint a substitute.

These documents usually contain a clause empowering the donee "generally to do all such acts as may be necessary or expedient for carrying out the powers hereby given," but any such clause merely confers authority to do unspecified acts for the attainment of specified acts. Thus, a power to buy shares does not necessarily confer power to sell shares.

Their Duration and Revocation.

It is a common practice for powers of attorney to be expressed as "irrevocable for one year from the date thereof," but such documents continue in force until revoked. It is customary for the instrument to be returned to the principal upon revocation, hence the possession of the document by the donee is *prima facie* evidence that it is still in force. It is the duty of the principal to communicate the fact of revocation to third parties who have dealt with the attorney. Where, however, lapse of time or other indications give rise to doubts, reinspection of the instrument and a declaration that it is still in force should be demanded.

Death, bankruptcy or insanity of the principal revokes the power of attorney and, similarly, death of the attorney revokes the authority of a substitute appointed.

Entries in Register.

Particulars of the instrument, date, names of donor and donee, and the nature of the powers delegated should be entered in the shareholder's account in the Share Ledger and in a Register of Powers of Attorney. A specimen ruling for the latter is given on page 1081.

The Forged Transfer Acts authorize a company to make any reasonable conditions with regard to powers of attorney, and many companies require attorneys to give an undertaking for the safe custody of the original, for production of the original for re-inspection when desired and for copies to be left with them.

After examination and registration, the power of attorney is endorsed with the fact of its registration and returned to the attorney. The usual 2s. 6d. registration fee is charged.

Office Copies.

Under the provisions of Sec. 48 of the Conveyancing Act, the original power of attorney (with an affidavit or statutory declaration verifying its due execution) may be deposited in the Central Office of the Supreme Court of Judicature.

Copies of the instruments so deposited may be presented at the Central Office and marked as "Office Copies." The Act provides that any such copy shall be sufficient evidence of the contents of the document deposited. An "office copy" is therefore equivalent to the production of the

original. The file of original instruments is open to public inspection at the Central Office of the Supreme Court.

This section of the Conveyancing Act, however, is merely permissive and not compulsory.

CHAPTER IX

TRANSMISSION OF SHARES

TRANSMISSION of shares is the term used to denote the passing of the property in shares by operation of law upon the death, lunacy or bankruptcy of a shareholder.

The Right to Deal with the Shares.

In each instance, this right vests in the legal personal representatives; viz., the executors or administrators of deceased shareholders, the "committee" of a lunatic and the trustee of a bankrupt.

These rights are evidenced by the grant of Probate to the executor of the will of a deceased member, Letters of Administration to the administrator of the estate of an intestate person and an Order of the Court to the committee of a lunatic or the trustee of a bankrupt.

An abstract of these documents is entered in the Register of Probates, etc., and the names of the executors or other representatives noted in the Register of Members. After registration the Probate or Letters of Administration are marked with the fact of registration by means of a rubber stamp. The documents are then returned.

An office copy of the Order of the Court appointing the committee in lunacy or the trustee in bankruptcy is served upon the company and retained. The usual registration fee, 2s. 6d., is payable to the company.

A specimen form of the Register of Probates, etc., is given on page 1081.

Executors and Administrators.

Sec. 29 of the 1908 Act provides for the validity of transfers made by the personal representatives of deceased members. Most articles of association, however, contain a transmission clause regulating the rights of executors and/or administrators. Usually, the representatives are authorized to be registered as a member in respect of the shares or to make such transfer as the deceased could have made. In the following paragraphs where the word "executor" is used, it must be understood that the remarks apply equally to administrators.

When the shares form the subject of a specific legacy, the executor and legatee must execute a transfer which, together with the relative share certificate, must be lodged with the company. This transfer is dealt with in the usual manner.

But where the executors are to retain control of the deceased's affairs they may remain noted in the Register of Members as the deceased's representatives or, alternatively, be registered as members in their own names. In the latter case, they incur all the liabilities of membership and also enjoy its privileges. To effect this, a "distinct and intelligent request" in writing must be made by the executors. Many companies issue a "Letter of Request," for signature by the representatives.

capacity. The stamp duty is 10s. 0d. as on a nominal consideration.

Scotch and Irish Probates, Etc.

Probates or Letters of Administration issued in either Scotland or Ireland must be resealed at the Principal Probate Registry of the English Courts before the personal representatives can be recognized. Similarly, English and Irish probates must be resealed in Scotland, and English or Scottish in Ireland. Colonial and Foreign



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No stamp is necessary on the ordinary Letter of Request, but where the shares are partly paid the words "hereby request you" should be revised to read "hereby agree and request you." The form is then subject to 6d. stamp duty as an agreement.

With some companies, however, the articles provide that the personal representatives of deceased members may "transfer such shares either to himself or to some other person approved by the directors." In such cases, a letter of request cannot be used, and a formal instrument of transfer must be executed by the representative of the deceased as transferor to himself in his own name. Only one signature of the executor is necessary; it binds the signatory in his representative capacity as well as in his own personal

Grants also must be resealed in this country before they can be acted upon here.

Small Estates.

When the total value of the possessions of an intestate shareholder is less than £100 his next-of-kin may be allowed to transfer the shares upon making a statutory declaration verifying the facts.

Joint Accounts.

Upon the death of a joint holder his interest in the shares, under English law, passes to the survivors and a certificate of death is sufficient evidence of their title. Some companies, however, require a Statutory Declaration (stamp duty 2s. 6d.) identifying the person described in the

death certificate as the shareholder named in the share certificate.

Administration "De Bonis Non."

This occurs where an executor dies intestate before completing the distribution of the deceased's estate, and letters of administration *de bonis non* are granted to the nearest next-of-kin of the deceased shareholder.

The authority of an executor is derived from the deceased's will by which he is appointed, and the appointment may be passed on to his own executor. Hence, the title of an executor is transmissible and where an executor dies testate the executor of his will may be recognized as being entitled to deal with the deceased member's shares; the "chain of transmission" is complete.

But this principle does not apply to an administrator; the latter is appointed by the court, and the appointment ceases at his death. An administrator of either a deceased executor or a deceased administrator must not be recognized, nor is the executor of a deceased administrator entitled to act. The company must call for the production of letters of administration *de bonis non*. To avoid this complication of title, many companies, when probate or letters of administration are exhibited, issue a form of "Letter of Request" so that the personal representatives may be registered personally in respect of the deceased member's shares.

Entries in Register.

The exhibition of probate or letters of administration should be recorded in the deceased member's account in the following manner—

Probate (or Letters of Administration)
granted on _____, 19__,
to Alfred Bee, 21 Cornwall Gardens,
S.W. Merchant.

Registered _____, 19__ P.R. Fo. __

The share certificate may be similarly endorsed, but in addition, the endorsement should be signed by the secretary.

Sec. 27 of the 1908 Act prohibits the company entering notice of any trust on the register.

Statutory Companies.

With parliamentary companies to whom the Companies Clauses Act, 1845, applies, the procedure is somewhat different. Sec. 18 of the 1845 Act provides that the names of personal representatives of deceased members shall be entered in the Register of Members upon production of the Probate or Letters of Administration accompanied by a Statutory Declaration.

The representatives acquire immediately the

privileges and responsibilities of membership, and recognition in a representative capacity does not arise. In these cases, the statutory declaration being "required by law," is exempt from stamp duty.

Lunatics.

The "committee" of a lunatic may consist of one or several persons. The Order of the Court appointing the committee is the authority for the company to pay the dividends to the committee or to accept transfers of the shares, etc.

Bankrupts.

Similarly, the Order of the Court forms the authority of the trustee to claim dividends or transfer the shares. Under the usual transmission clause (*see* Table A, clause 22), the trustee of a bankrupt has the right to be registered personally and he then becomes personally responsible to the company for calls (if any) on partly-paid shares. Sec. 50 of the Bankruptcy Act, 1883, however, provides that the trustee shall have the same right to transfer as the bankrupt would have possessed if he had not become bankrupt. Hence, the trustee may transfer the shares without becoming a member.

Where there is an onerous liability (e.g. for unpaid calls), the trustee may, within twelve months of his appointment, disclaim the shares.

Specimen Registers.

The examples on p. 1081 illustrate the rulings for the Register of Probates, Power of Attorney, etc. Similar registers are adopted to record the registration of Deed Poll on change of name and the appointment of Trustees in Bankruptcy or Committees of a Lunatic.

These records may be contained in one book (different sections of the book being reserved for each class of document) or in separate books.

CHAPTER X

SHARE WARRANTS TO BEARER

THE statutory power to issue share warrants to bearer is given by Sec. 37 of the 1908 Act, but any such issue must be authorized by the company's own articles. Regulations governing the issue of share warrants are included in Table A (clauses 35 to 40) and special articles invariably contain similar provisions.

Private companies, however, must not issue share warrants, as under Sec. 121 of the 1908 Act the total number of members is restricted, and if share warrants were issued, the company would not be in a position conclusively to give the certificate of total membership required by Sec. 1, s.s. 3, of the 1913 Act.

Negotiability.

Share warrants are "negotiable instruments," hence the property in them (i.e. the right of absolute ownership) passes by delivery and it is therefore necessary for the warrant to certify that the BEARER "is entitled to fully-paid shares."

Stamp Duties.

The stamp duty required is three times the duty on a transfer deed, calculated on the nominal value of the shares. For example, on a warrant for 100 shares of £1 each the stamp duty is 90s. The stamp duty must be impressed upon the documents before execution, i.e. before signature by the

directors and secretary, and before the company's seal is affixed.

Issue of the Warrants.

Registered shareholders desiring to convert their paid-up shares into share warrants are required to make application in writing, pay the prescribed fees and stamp duties, and surrender the share certificates. The warrants are issued in denominations of 1, 5 and 10 shares or otherwise as may be arranged by the company. The fees usually charged are 2s. 6d. conversion fee, plus 1s. 0d. for each warrant. The shareholders' account in the Register of Members is closed, and the shares converted are transferred to a Share Warrants Account.

PROBATES AND LETTERS OF ADMINISTRATION

No.	Date of Registration.	SHAREHOLDER.		Date of Death.	Date of Grant.	Executor or Administrator.	Address and Occupation.	By whom Left.	Reg. of Mem. Fol.
		Name.	Address.						
	19..			19..	19..				

POWERS OF ATTORNEY

No.	Date of Registration.	SHAREHOLDER.		Date of P.A.	Description of Powers Delegated.	Name of Attorney.	Address.	By whom Left.	Reg. of Mem. Fol.
		Name.	Address.						
	19..			19..					

MARRIAGE CERTIFICATES

No.	Date of Registration.	SHAREHOLDER.		Date of Marriage.	To whom Married.	Address.	By whom Left.	Reg. of Mem. Fol.
		Name.	Address.					
	19..			19..				

PROOF OF DEATH IN JOINT HOLDINGS

No.	Date of Registration.	SHAREHOLDER.		Date of Death.	In Joint Account with:		By whom Left.	Reg. of Mem. Fol.
		Name.	Address.		Name.	Address.		
	19..			19..				

LETTERS OF REQUEST OF EXECUTORS AND ADMINISTRATORS

No.	Date of Registration.	SHAREHOLDER.		Date of Request.	Executor or Administrator.	Address and Occupation.	By whom Left.	Reg. of Mem. Fol.
		Name.	Address.					
	19..			19..				

[Note. Some companies treat the "Letters of Request" as the equivalent of a Transfer and enter them in the Register of Transfers, but the more correct procedure is to enter them in a separate register as above.]

NOTICES IN LIEU OF DISTRINGAS

No.	Date of Registration.	SHAREHOLDER.		Date of Notice.	In favour of	Address and Occupation.	By whom Left.	Reg. of Mem. Fol.
		Name.	Address.					
	19..			19..				

The warrant issued states the number of shares, their distinctive numbers and is dated, sealed and signed by the directors in the same manner as a share certificate.

Reconversion of Registered Shares.

Holders of share warrants may apply for the shares to be registered in their own name, paying the usual registration fee and surrendering the share warrants.

Records of Share Warrants.

The issue of share warrants may be recorded in the Register of Transfers, and the application forms treated as though they were transfers. For conversion of shares to share warrants, the shareholder is entered as the transferor and "share warrants" as the transferee. But for reconversion, "share warrants" will appear as the transferor and the applicant as the transferee.

Where a large number of warrants is issued a separate register should be kept. A specimen form is appended below.

If, however, only few warrants are issued, the record in the Share Warrants Account in the Register of Members may suffice.

Dividends.

The payment of dividends is usually effected by means of coupons (numbered consecutively 1 upwards), which are attached at the foot of the warrant. Each of the coupons will state that the bearer is entitled to the dividend on . . . shares included in the warrant, and that it will be payable at the company's office (or the company's bankers, as the case may be) on a date to be announced by the directors. The declaration of dividends is announced by a notice posted up at the company's office and also advertised in certain newspapers.

CHAPTER XI

DEBENTURES AND MORTGAGES

ALTHOUGH the term "Debenture" literally means a document which creates a debt or acknowledges it, in the commercial sphere the term is generally used to signify a document issued under a company's seal which, in addition to acknowledging the liability, creates a mortgage or charge upon the company's property as security for the due repayment of the principal and interest.

Registration of Mortgages.

Sec. 93 of the 1908 Act provides that particulars of the following classes of mortgages or charges, together with the instrument (if any) by which the mortgage or charge is created or evidenced, shall be filed with the Registrar of Companies within twenty-one days of the creation of such charge.

(a) A mortgage or charge for the purpose of securing any issue of debentures.

(b) A mortgage or charge on uncalled share capital of the company.

(c) A mortgage or charge created or evidenced by an instrument which, if executed by an individual, would require registration as a bill of sale.

(d) A mortgage or charge on any land, wherever situate, or any interest therein.

(e) A mortgage or charge on any book debts of the company.

(f) A floating charge on the undertaking or property of the company.

Unless particulars are filed with the Registrar, the mortgage or charge is void so far as any security on the company's property or undertaking is thereby conferred.

Company's Register.

Particulars of all mortgages or charges specifically affecting the company's property must be entered in the company's own register.

SHARE WARRANT REGISTER

LEFT-HAND RULING

Date of Application.	Application No.	Date of Warrant.	Warrant No.	DISTINCTIVE NOS.		ISSUED TO	
				From	To	Name.	Address.

RIGHT-HAND RULING.

SURRENDERED by	Date Cancelled.	SHARES Re-registered.	
		Name.	Address and Occupation.

Classification.

Debentures are commonly issued in the following forms—

1. Registered debentures.
2. Debentures payable to bearer with interest coupons attached.
3. Registered debentures with interest coupons payable to bearer, and with the right of conversion to bearer bonds.
4. Debentures payable to bearer, with interest coupons and with the right of conversion to registered debentures.

Registered debentures are expressed to be payable to the registered holder and warrants are issued to the holders for payment of interest in the same manner as dividend warrants.

Debentures to bearer, by mercantile custom and usage, are negotiable instruments in the fullest sense of the term. Payment of interest on bearer bonds is effected by means of coupons in the same manner as described for coupons of share warrants.

The terms of the contract between the parties and the various conditions are set out in the debenture itself. With large issues a debenture trust deed is often entered into between the company and trustees on behalf of the debenture holders. In such cases, the trust deed creates the mortgage or charge, and a reference to the deed appears on the debentures.

Stamp Duties.

The duties payable on registered debentures which are transferable only by instrument of transfer are—

		s.	d.
Where the amount secured does not exceed	£10	0	3
Exceeds	£10 and does not exceed £25	0	8
"	£25 " " £50	0	1 3
"	£50 " " £100	0	2 6
"	£100 " " £150	0	3 9
"	£150 " " £200	0	5 -
"	£200 " " £250	0	6 3
"	£250 " " £300	0	7 6
"	£300, for every £100, and also for any fractional part of £100 of such amount	0	2 6

For debentures payable to bearer and transferable by delivery the duties are—

	s.	d.
(a) Repayable within not more than one year, for every £10, or part, of amount secured	0	6
(b) Repayable within not more than three years, for every £10, or part, of amount secured	1	-
(c) Repayable at a time exceeding three years, for every £10, or part, of amount secured	4	-
(d) If given in substitution for one duly stamped under (c) for every £20 or part	2	-

The term "amount secured" includes in certain circumstances any bonus or premium covenanted to be paid when the bonds or debentures are redeemed. For instance, a bond for £100 which secures the payment of £100 with a premium of £5 must be stamped for £105, unless such premium is payable only in consequence of some voluntary act of the company.

Substituted Securities. If given in substitution of a duly

stamped security (Registered Debentures) for every £100 or part 6d. (maximum 10s.).

A bearer debenture given in substitution for a registered debenture attracts the full duty of 4s. per £100 or part.

Conversions.

Where registered debentures are issued with the right of conversion to bearer bonds or bearer debentures to registered bonds, applicants must fill in the application form and pay the usual fee, 2s. 6d., when lodging the bonds with the company. The conversion is endorsed on the debenture bond and returned to the applicant after particulars are recorded in the company's register. For purposes of stamp duty, registered debentures with the right of conversion by endorsement are treated as bearer debentures.

Transfers.

Transfers of registered debentures are effected by means of a transfer deed executed in a similar manner to a transfer of shares. The transfer accompanied by the debenture, is lodged with the company for registration with the usual registration fee, 2s. 6d.

A Debenture Transfer Register is kept similarly to the Transfer Register (of shares) and the transfer deed is retained by the company. The debenture is endorsed with particulars of the registration of the transfer into the name of the transferee and is then delivered to the new holder.

Debenture Stock.

This term denotes the consolidated loans of a company, and is usually secured by a trust deed. The trust deed bears the full stamp duty payable, and the stock certificates are exempt. Transfers are effected and new certificates are issued in the same manner as for shares.

CHAPTER XII

DIVIDENDS

DIVIDENDS are the apportioned profits distributed to the shareholders, either on a percentage basis or at a fixed sum per share on the issued capital of the company.

How Distributed.

Where there are different classes of shares, the rights of the respective classes may be defined in the memorandum, but more generally, in the articles; the method and manner of distribution is regulated by the articles.

Usually, the directors are authorized (when the profits allow) to declare and pay interim dividends, but the sanction of the company in general meeting has to be obtained before the final dividend for the year is paid. In the latter case, the articles invariably provide that "no dividend shall exceed the amount recommended by the directors."

The relative clauses in Table A are Nos. 95 to 108, but in special articles, the provisions are, more generally, amplified to confer greater powers on the directors with regard to reserves, and to authorize the payment of dividends in specie, etc.

Profits Available for Dividend.

The question of what is "net" or "divisible profits" is sometimes difficult: and it has been

not be replaced or made good is one of an inherently wasting nature, such as a gold mine. This class of asset may be worked to exhaustion and dividends paid to the fullest extent, yet there is no legal necessity to provide for the wastage of the capital it represents.

Dividend Mandates.

Many shareholders desire their dividends paid



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held that this "depends upon the whole accounts fairly taken for the year, capital as well as profit and loss." (*Foster v. New Trinidad Co.*, 1901, 1 Ch. 208.)

Divisible profits may be broadly defined as the excess of current receipts over current expenditure after replacing or making good the wastage or depreciation of the floating or circulating assets of the company. In certain circumstances, losses or wastage of "fixed" capital or assets (i.e. "property acquired and intended for retention and employment with a view to profit") need not be provided for, but the commercial practice is to make good wastage of such assets as plant and machinery, and buildings.

The best example of fixed assets which need

to a bank for the credit of their account and a dividend mandate in the following form is commonly used—

(Address) _____

TO THE DIRECTORS, _____, 19__

THE BLANK COMPANY, LIMITED.

Gentlemen,—

Please pay all interest and dividends from time to time payable on the stocks and shares now, or which may be hereafter, registered in my name in the books of your company to _____ of _____ whose receipt shall be your full and sufficient discharge.

Yours faithfully,

(Signature) _____

THE BLANK COMPANY, LIMITED

NOTICE OF DIVIDEND. ORDINARY SHARES.

No.....

1

LONDON, E.C.2.

....., 19....

DEAR SIR (or MADAM),—

I am directed to hand you the annexed Dividend Warrant for the year ending 31st December, 19..

Dividend on Ordinary Shares at % £
Less Income Tax at.....in the £

£
=====

I hereby certify that the Income Tax deducted from the dividend has been or will be paid by me to the proper officer for the receipt of Taxes.

Yours faithfully,

.....Secretary.

To.....

This Statement will be accepted by the Income Tax Commissioners as proof of the deduction of tax.

..... (PERFORATED)

THE BLANK COMPANY, LIMITED.

ORDINARY DIVIDEND No. 1.

2d.
STAMP

The Bank of London, Ltd.

MOORGATE STREET, E.C.2.

Pay.....or order the sum of
.....pounds.....shillings and.....pence.

For and on behalf of
THE BLANK COMPANY, LIMITED.

£ : :
=====

.....Director.
.....Secretary.

Payee's signature.....

If this Warrant is not presented for payment within six months, it must be presented at the Company's Office for verification.

Preparation for Dividend.

The customary practice is for the directors to pass a resolution that the Transfer Books of the company will be closed for a stated period for the preparation and payment of the dividend, and the resolution authorizing the dividend should state that the dividend will be "paid to those shareholders whose names appear on the company's register on the ... day of 19..."

Dividend List.

In the first instance, a complete list of the shareholders, showing the amounts held by each member must be entered on the dividend sheets, which may be in the form below.

The final total of the share capital column must, of course, agree with the total share capital issued and paid up. Where dividends are payable to a bank for credit of the shareholder, particulars may be inserted in the "address" column in red ink, or alternatively, an extra column provided.

The gross dividend, tax and net dividend must be entered in the appropriate columns and each sheet separately totalled, cross-cast and checked. A summary sheet, recording the totals of the separate sheets is prepared, totalled and checked, after which the dividend warrants are prepared.

When a large number of dividend mandates are received, authorizing payment of dividends to bankers, it is convenient to fill up only the upper halves of the dividend warrant, listing them separately and sending one cheque for the total amount to the head office of the bank concerned. The detailed list will state the warrant No., the name of the shareholder, and the branch of the bank to which the proceeds of the warrant is to be paid.

The Dividend Warrant.

This is, in effect, a cheque, and is subject to the same statutory privileges as a cheque. It is, usually, printed specially, and bears a reference to the dividend so that it may easily be distinguished by the banker and charged to the special dividend account.

A specimen warrant is shown inset.

Dividend Pass Book.

It is customary to arrange with the bank for a special "Dividend Account" to be opened for

each dividend, and a transfer from the company's current account is made for this purpose. The pass book should be examined periodically and the paid warrants marked off on the dividend list. Any warrants unpaid at the end of six months should be transferred to an "Unclaimed Dividends Account" and should appear under that heading in the company's Balance Sheet.

Lost Dividend Warrant.

If a shareholder notifies the company that the dividend warrant has been lost or not received, payment of the warrant by the company's bankers should be stopped. A duplicate warrant should be issued only against a letter of indemnity (stamp duty, 6d.). No stamp duty is required where the amount of the warrant is less than £5. Some companies charge a fee of 1s. for duplicate warrants to cover expenses of postage, etc.

Income Tax Certificate.

The upper half of the dividend warrant acts as a certificate of deduction of income tax; if this is lost any copy issued must be marked "Duplicate." A fee of 6d. is usually charged.

Interest Payable Out of Capital.

Under Sec. 91 of the 1908 Act, companies are empowered to pay interest on shares issued to provide the capital for the construction of works, buildings or the provision of plant during the period of such construction, etc., and may charge the interest as part of the cost of the erection of the works and buildings or the provision of the plant.

The payment of interest is subject to the following conditions—

1. Authorization by the company's articles or by special resolution.
2. Sanction of the Board of Trade.
3. Rate of interest must not exceed 4 per cent per annum.
4. The accounts of the company, from time to time, must show particulars of the share capital on which (and the rate per cent at which) the interest has been paid for the period shown in the accounts.

Such interest can only be paid during the period sanctioned by the Board of Trade, which must not extend beyond the half-year following the half-year in which the works, buildings, etc., are completed.

ORDINARY DIVIDEND No. of % ...payable...19..

Reg of Mem. Fol.	Warrant No.	SHAREHOLDER.		Spare Capital.	Gross Dividend.				Income Tax @				Net Dividend.				Remarks.
		Name.	Address.														
				£	£	s.	d.		£	s.	d.		£	s.	d.		

Company Accounts

By ERNEST J. HAMMOND, A.C.I.S.

Chartered Secretary

CHAPTER I

SHARE CAPITAL

THE accounts of limited companies, as regards their ordinary trading transactions, are recorded and compiled in the same manner as any other trading concern, whether that of a partnership or a sole trader. But with regard to the accounts recording the proprietor's capital and the distribution of profits, there are distinctive points of difference which require special treatment.

Book-keeping—as such—is dealt with in another section of this work and the scope of the present section is the treatment of accounts recording the company's capital, alterations and adjustments of capital, and the distribution of profits. The purely secretarial work in connection with the issue of share capital, the preparation and payment of dividends, etc., is dealt with in the section on Company Secretarial Work, this section dealing with the accounting records in the company's financial books.

Issue of Share Capital.

The first step, after the registration of the company is effected, is to obtain the capital with which the company is to carry on business. With private and some public companies this is arranged by the directors between themselves and their friends. With public companies, however, the usual practice is to issue a prospectus, asking the public to subscribe for its shares.

A form of application is usually enclosed with the prospectus and the applications, accompanied by cheques, are forwarded to the company's bankers. The applications are entered by the bankers in a special pass book, which, from time to time, is handed to the company with the relative application forms. After being compared with the pass book, the applications are numbered and listed on the application and allotment sheets, a specimen ruling of which is given in the section on Company Secretarial Work (see page 1064). The cash received is entered in a subsidiary Received Cash Book and the daily or other periodical totals are transferred to the General Cash Book. The periodical totals are posted to the credit of an Application and Allotment Account, separate accounts being kept for each class of share.

When the application sheets are completed, the total amount received is checked with the pass and cash books and after it has been ascertained

that the statutory conditions as to minimum subscription, etc., have been fulfilled, the directors may proceed to allotment. Letters of allotment are sent to those applicants to whom shares have been allotted, and letters of regret, accompanied by cheques for a refund of the application money, to unsuccessful applicants. Where the issue has been over-subscribed, some of the allottees may receive a partial allotment; the excess amount paid on application being retained by the company and set-off against the amount due on allotment.

The total amount due on application and allotment is debited, by means of a journal entry, to the Application and Allotment Account and credited to the Share Capital Account.

Refunds to unsuccessful applicants are entered in detail in a subsidiary Paid Cash Book and transferred in total to the General Cash Book from which book the total is posted to the debit of the Application and Allotment Account. The moneys paid on allotment are entered in detail in the subsidiary Received Cash Book whilst periodical totals only are entered in the General Cash Book and posted to the credit of the Application and Allotment Account. This account, when all the amounts due have been received and posted, will be closed. A debit balance on this account indicates the amount unpaid on allotment.

Calls.

The prospectus sometimes gives particulars of the dates on which further instalments on the shares are payable, and in such cases, receipt forms, etc., are attached to the allotment letter so that shareholders can pay the amounts as and when they become due. More usually, however, the terms of issue provide for the amount remaining unpaid to be called up by the directors as and when required. In that event, the directors must pass an appropriate resolution and a call letter, notifying the amount payable, be sent to each shareholder. Call Sheets showing full details of the call are prepared and the total amount is debited (through the journal) to the Call Account and credited to Share Capital Account.

The call money received is dealt with in a similar manner to the allotment money; details are entered in the subsidiary Received Cash Book; the totals being transferred to the General Cash Book and posted to the credit of the Call Account. If all the calls are paid, this account will balance and be closed; a debit balance represents the amount of the unpaid calls.



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THE CANTEEN AT FORT DUNLOP

Dunlop Rubber Co., Ltd.

Calls in Advance.

Occasionally, some shareholders desire to pay their calls in advance of the due dates and where this occurs the amounts received must be credited to a Calls in Advance Account. Such items do not, strictly speaking, form part of the company's capital and are not entitled to rank for dividend. Where, however, the articles so authorize, interest may be paid on such items.

When the call is actually made, the amounts received in advance are transferred, by Journal entry, to the credit of the appropriate Call Account.

Register of Members and Share Ledger.

The personal accounts of the members individually are written up from the application and allotment sheets, call sheets and the subsidiary cash books. Payment of the allotment and call money is also marked off on the allotment and call sheets from the subsidiary cash book.

A specimen page of the Share Ledger is given in the section on Company Secretarial Work (see page 1070).

CHAPTER II

THE CAPITAL ACCOUNTS AND OPENING ENTRIES

THE Share Capital Account, as we have shown in the previous chapter, is credited with the full amount payable on application, allotment and calls, and when the full nominal value of the shares is called up, it represents the total issued capital. The Application and Allotment, and the Call Accounts are really summarized adjustment accounts recording the totals of these transactions, the details appearing on the application, allotment and call sheets respectively. Separate accounts must be kept throughout for each class of share.

Purchase of a Business.

Whilst some companies are formed to commence a new business it is a common practice for companies to be formed to acquire an established business upon definite stated terms evidenced by a contract under seal between the company and the vendors. In the first case, the company starts, as it were, with a clean slate, and as it acquires assets, the asset account is debited and cash or the seller credited with their value. Where assets are purchased in consideration of an allotment of shares, the share capital account is credited and the seller debited with the nominal value of the shares allotted.

In the second case, however, more detailed consideration is required. Usually, a preliminary contract is entered into with the vendor by a trustee on behalf of the company so as to bind the vendor and, after the company has gone to allotment and is entitled to commence business, the final contract between the company and the

vendor is completed. The contract will specify particulars of the assets acquired, the liabilities taken over and the purchase consideration; the latter being sometimes wholly in cash but more usually, partly in cash and partly in shares or debentures. Where shares or debentures are allotted under such circumstances, the purchase contract must be filed with the Registrar of Joint Stock Companies.

The entries required to bring particulars of these transactions into the company's books are known as "opening entries" and may be thus summarized:—

1. Debit the asset account with the agreed value of the assets acquired and credit vendor.
2. Debit vendor and credit liability accounts with the liabilities taken over.
3. Debit the vendors with the nominal value of the shares allotted and credit share capital account. If debentures are allotted, the debenture account will be credited.
4. Debit the vendor with the amount of cash payments.

Finally, the vendor's account will be closed and the total of the debit balances of the various asset accounts will equal the total of the credit balances of the liability and share capital accounts.

A reference to the contract and also to the minute of the director's resolutions authorizing the adoption of the contract and the allotment of the shares should appear as a narration in the journal entry.

The Companies Acts require the value of the Goodwill to be separately stated in the prospectus and balance sheet, and most purchase contracts give this information. In some cases, however, a round sum is stated as the purchase price of the assets less the liabilities, the separate value of the assets and the goodwill not being specifically mentioned. The tangible and other assets acquired should, in such circumstances, be valued at a fair price and the balance of the purchase price treated as the value of the goodwill.

EXAMPLE. The following example illustrates the foregoing principles in the compilation of the accounts required on the formation of a company.

A company was incorporated on 1st January, 19—, with a capital of £100,000 divided into 50,000 Cumulative Preference Shares of £1 each and 50,000 Ordinary Shares of £1 each. The company is formed to acquire the business of Smith & Jones as a going concern. The assets acquired are as follows—

Freehold land and buildings	£45,000
Machinery and Plant	15,000
Stock-in-trade	9,500
Book Debts	6,720
	£76,220

and the liabilities taken over amounted to £4,220.

The purchase contract provides that the consideration for the sale of the business is the sum of £84,000, payable as to £60,000 in cash and £24,000 in fully paid ordinary shares of the company; the value of the goodwill being fixed at £12,000. The firm of Smith & Jones consisted of Arthur Smith and William Jones, their capital being held in the proportions of two-thirds and one-third respectively.

COMPANY ACCOUNTS

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Applications are invited from the public for all the preference shares and the balance of the ordinary shares, payable as follows—

- 5s. per share upon application (10th January).
 5s. " " " allotment.
 10s. " " " first and final call one month after allotment.

Subscriptions for 56,500 preference shares and 25,600

ordinary shares are received and the company went to allotment on 15th January.

Assuming that the whole of the allotment money was received by the 20th January, the call money by 21st February, the vendor shares being allotted on 21st January and the cash portion of the purchase price paid on 25th February, the entries in the company's books will appear as follows—

Dr.		CASH BOOK				Cr.				
19..			£	s.	d.	19..	£	s.	d.	
Jan. 10	To Preference Application and Allotment Account for amounts received on applications for 56,500 shares	3	14,125	--	--	Jan. 15	By Preference Application and Allotment Account for amounts refunded to unsuccessful applicants	3	1,625	--
10	To Ordinary Application and Allotment Account for amounts received on applications for 25,600 shares	4	6,400	--	--	Feb. 25	By Vendors' Account amounts paid to Arthur Smith	13	40,000	--
							William Jones	13	20,000	--
20	To Preference Applications and Allotment Account for amounts received on allotment	3	12,500	--	--					
20	To Ordinary Application and Allotment Account for amounts received on allotment	4	6,400	--	--					
Feb. 21	To Preference Call Account for amounts received on call due	5	25,000	--	--					
21	To Ordinary Call Account for amounts received on call due	6	12,800	--	--		By Balance	✓	15,600	--
			£77,225	--	--				£77,225	--

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19..		£	s. d.	£	s. d.
Jan. 15	Preference Application and Allotment Account Dr.	3	25,000 --		
	To Preference Share Capital A/c Being 10s. per share due on application and allotment on 50,000 shares Nos. 1 to 50,000 allotted this date. (Vide Minute Book, Resolution No.)	1		25,000 --	
Jan. 15	Ordinary Application and Allotment Account Dr.	4	12,800 --		
	To Ordinary Share Capital A/c Being 10s. per share due on application and allotment on 25,600 shares Nos. 1 to 25,600 allotted this date. (Vide Minute Book, Resolution No.)	2		12,800 --	
Jan. 15	Goodwill Dr.	7	12,000 --		
	Freehold land and buildings Dr.	8	45,000 --		
	Machinery and Plant Dr.	9	15,000 --		
	Stock-in-trade Dr.	10	9,500 --		
	Sundry Debtors Dr.	11	6,720 --		
	To Vendors	13		88,220 --	
	Being assets acquired under the purchase contract dated 1st January and ratified by the directors this date. (Vide Minute Book, Resolution No.)				
Jan. 15	Vendors Dr.	13	4,220 --		
	To Sundry Creditors	12		4,220 --	
	Being liabilities taken over under the above named contract.				
Jan. 21	Vendors Dr.	13	24,000 --		
	To Ordinary Share Capital A/c Being allotment of 24,000 Ordinary shares in part satisfaction of	2		24,000 --	

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19..		£	s. d.	£	s. d.
19..	purchase consideration in accordance with terms of contract dated 1st January, 19				
	Arthur Smith, 16,000 shares No. 25,601 to 41,600				
	William Jones, 8,000 shares No. 41,601 to 49,600				
	<u>24,000</u>				
	(Vide Minute Book, Resolution No.)				
Feb. 15	Preference First and Final Call Account Dr.	5	25,000 --		
	To Preference Share Capital Account	1		25,000 --	
	Being amounts due on 50,000 shares at 10s. per share for first and final call due this date				
Feb. 15	Ordinary First and Final Call Account Dr.	6	12,800 --		
	To Ordinary Share Capital A/c	2		12,800 --	
	Being amounts due on 25,600 shares at 10s. per share for first and final call due this date.				

TRIAL BALANCE

Dr.			Cr.		
	£	s. d.	£	s. d.	
CB	Cash at Bank	15,600	-	-	
1	Preference Share Capital Account	-	50,000	-	-
2	Ordinary Share Capital	-	49,600	-	-
7	Goodwill	12,000	-	-	
8	Freehold Land and Buildings	45,000	-	-	
9	Machinery and Plant	15,000	-	-	
10	Stock-in-Trade	9,500	-	-	
11	Sundry Debtors	6,720	-	-	
12	Sundry Creditors	-	4,220	-	-
	£ 103,820	-	103,820	-	-

LEDGER

<i>Dr.</i>		PREFERENCE SHARE CAPITAL ACCOUNT				1	<i>Cr.</i>		
19..			£	s. d.	19..		£	s. d.	
Feb. 15	To Balance c.d.	✓	50,000	--	Jan. 15	By Pref. Appn. and Allot. A/c	J	25,000	--
					Feb. 15	By Pref. Call A/c	J	25,000	--
			£50,000	--				£50,000	--
					" 15	By Balance b.d.	✓	50,000	--
<i>Dr.</i>		ORDINARY SHARE CAPITAL ACCOUNT				2	<i>Cr.</i>		
Feb. 15	To Balance c.d.	✓	49,600	--	Jan. 15	By Ord. Appn. and Allot A/c	J	12,800	--
						By Vendors	J	24,000	--
					Feb. 15	By Ord. Call A/c	J	12,800	--
			£49,600	--				£49,600	--
					" 15	By Balance b.d.	✓	49,600	--
<i>Dr.</i>		PREFERENCE APPLICATION & ALLOTMENT A/C				3	<i>Cr.</i>		
Jan. 15	To Pref. Share Capital	J	25,000	--	Jan. 10	By Cash	CB	14,125	--
" 15	To Cash	CB	1,625	--	" 20	By Cash	CB	12,500	--
			£26,625	--				£26,625	--
<i>Dr.</i>		ORDINARY APPLICATION & ALLOTMENT A/C				4	<i>Cr.</i>		
Jan. 15	To Ord. Share Capital	J	12,800	--	Jan. 10	By Cash	CB	6,400	--
					" 20	By Cash	CB	6,400	--
			£12,800	--				£12,800	--
<i>Dr.</i>		PREFERENCE CALL ACCOUNT				5	<i>Cr.</i>		
Feb. 15	To Pref. Share Capital	J	25,000	--	Feb. 21	By Cash	CB	25,000	--
<i>Dr.</i>		ORDINARY CALL ACCOUNT				6	<i>Cr.</i>		
Feb. 15	To Ord. Share Capital	J	12,800	--	Feb. 21	By Cash	CB	12,800	--
<i>Dr.</i>		GOODWILL ACCOUNT				7	<i>Cr.</i>		
Jan. 15	To Vendors	J	12,000	--					
<i>Dr.</i>		FREEHOLD LAND AND BUILDINGS				8	<i>Cr.</i>		
Jan. 15	To Vendors	J	45,000	--					
<i>Dr.</i>		MACHINERY AND PLANT				9	<i>Cr.</i>		
Jan. 15	To Vendors	J	15,000	--					
<i>Dr.</i>		STOCK-IN-TRADE				10	<i>Cr.</i>		
Jan. 15	To Vendors	J	9,500	--					
<i>Dr.</i>		SUNDRY DEBTORS				11	<i>Cr.</i>		
Jan. 15	To Vendors	J	6,720	--					

Dr.		SUNDRY CREDITORS				12	Cr.
				Jan. 15	By Vendors	J	4,220 --

Dr.		VENDORS' ACCOUNT				13	Cr.
Jan. 15	By Sundry Liabilities	J	4,220 --	Jan. 15	By Sundry Assets	J	88,220 --
	By Share Capital	J	24,000 --				
Feb. 25	By Cash	CB	60,000 --				
			<u>£88,220 --</u>				<u>£88,220 --</u>

CHAPTER III

PREMIUMS ON SHARES, UNDERWRITING, AND PRE- LIMINARY EXPENSES

OTHER matters connected with the accounts necessary on the formation of a company and the issue of share capital will now be considered.

Premium on Shares.

Successful companies are often able to issue shares at a higher figure than their face or nominal value. For example, a company issues 10,000 shares of £1 each at 25s. per share, i.e., a premium of 5s. per share, payable 5s. on application, 10s. (including the premium), on allotment, and the balance as and when required. The premium really represents the amount payable by the shareholder for the privilege of receiving an allotment.

The journal entry recording this allotment will appear as follows :—

19..	Application and Allotment A/c Dr.	£	£
	To Share Capital Account	12,500	10,000
	To Premium on Shares A/c		2,500
	<i>Being amounts due on application (5s. per share) and allotment (10s. per share—5s. being capital and 5s. being premium) on 10,000 shares of £1 each Nos. to allotted this day. (Vide Minute Book, Resolution No.)</i>		

It is advisable to provide an extra column on the Application and Allotment Sheets to record details of the premium. The entries in the cash book, however, need not be divided as the whole amount received is credited to the one account, viz. the Application and Allotment Account.

The premiums thus received are a "profit" to the company, but it is a "capital" profit and not a "revenue profit," hence it may be used only for capital purposes. It is sometimes used (with the shareholders' sanction) for writing off preliminary expenses or for the reduction of goodwill, but more frequently it is transferred to a Capital Reserve Account. Some authorities consider it should always remain untouched in the Premium on Shares Account. Care must be

observed that the premiums are not transferred to a general reserve or dealt with in such a manner as to be used for the distribution of profits. It is questionable whether these premiums may be legally regarded as "profits available for dividend."

Underwriting.

Many public companies have their shares underwritten, i.e. arrangements are made with underwriters (financiers, stock-brokers, etc.), to guarantee the full subscription of the capital in consideration of a commission on the nominal amount of the share capital offered.

The underwriting contract is evidenced by an underwriting letter signed by the underwriter, who also sends a formal application for the shares accompanied by a cheque for the amount payable on application in the same manner as other applicants. Underwriters' applications, however, are listed separately from those received from the general public. If he so desires, an underwriter may take the whole or part of the shares underwritten as "firm," and in that event he receives an allotment in due course.

When the issue is fully subscribed by the public, the underwriter is relieved from liability. His application money is returned and he also receives a cheque for the amount of underwriting commission. But if the public subscriptions fall short of the total amount offered, the unsubscribed portion is allotted between the underwriters *pro rata* to the amounts guaranteed. The exact method of apportionment depends upon the precise terms of the underwriting contract but it is usually provided that "firm" subscriptions shall be applied primarily in relief of the underwriter's liability, as shown in the following example.

EXAMPLE. A company offers for subscription 100,000 shares of £1 each. A underwrites 50,000 shares, B, 30,000 shares, and C, 20,000 shares, for a commission at the rate of 2½ per cent on the amount underwritten. B takes 15,000 shares firm. The public subscribe for only 40,000 shares.

Total issue of shares	100,000
Public subscription	40,000
Underwriters' liability	<u>£60,000</u>

	Shares Underwritten.	Proportion.	Liability.	Taken firm.	Net Liability.
A	50,000	$\frac{1}{2}$ of 60,000	30,000	—	30,000
B	30,000	$\frac{1}{3}$ of 60,000	18,000	15,000	3,000
C	20,000	$\frac{1}{3}$ of 60,000	12,000	—	12,000
	100,000		60,000	15,000	45,000

The underwriters' application money is applied in part payment of the total amount due from them, the balance being payable in the usual manner. Separate cheques are given by the company to the underwriters for their commission.

Preliminary Expenses.

The expenses incurred in the formation of the company and the issue of its share capital are debited to a Preliminary Expenses Account. These expenses include stamp duty on capital; legal expenses, fees and stamps on the incorporation of the company and the transfer of the property acquired; printing, advertising and circulating the prospectus; underwriting commission and brokerage; cost of allotment letters and stamps, share certificates, etc.

Preliminary expenses are capital expenditure, but as they are not represented by any available asset it is customary to write them off against revenue during the first three or four years of the company's existence. Until written off, they are shown on the asset side of the Balance Sheet.

CHAPTER IV DEBENTURES

DEBENTURE holders are creditors of the company and not shareholders. From the accounting viewpoint, this distinction is of importance as the following divergent results accrue—

1. Shares may be issued at par or a premium but not at a discount; whilst debentures may be issued either at a discount, at par or a premium.

2. Dividends to shareholders may be paid only out of profits, but interest to debenture holders is payable whether profits are earned or not.

3. In the event of the company going into liquidation, the debenture holders rank for repayment in priority to the shareholders. If they are mortgage debentures, they also rank in front of the ordinary creditors.

The different classes in which debentures are usually issued by different companies and the various registers required are dealt with in the section on Company Secretarial Work.

The Issue of Debentures.

The detail work in connection with an issue of debentures or debenture stock is exactly similar to that on an issue of share capital and, therefore, does not require to be separately described. The ledger accounts which must be raised in the financial books are—

Debenture Application and Allotment Account.
Debenture Call Accounts.
Debenture or Debenture Stock Accounts.

When the whole of the money due has been paid, the first two accounts will be closed whilst the credit balance of the Debenture or Debenture Stock Account will appear as a liability in successive balance sheets until redemption takes place. Other accounts will include the debenture discount or premium accounts, debenture sinking funds account, etc., and these will be dealt with in this chapter.

Debentures at a Discount.

When debentures are issued in exchange for a smaller amount of cash (or other assets) than the face or nominal value of the debentures, the issue is said to be "at a discount"; the difference between the issue price and the amount which the company undertakes to repay at maturity being the amount of the discount. The company's full liability, which is, of course, the total amount of the debentures, must appear in the financial books; the discount being debited to a Debenture Discount Account. Where the debentures are issued for a term of years, the total discount must be written off to the debit of profit and loss within the "life" of the debentures. If, however, the debentures are irredeemable, the total discount should be written off within a reasonable period, the length of the period depending upon the circumstances of each case. Until it is extinguished, the Debenture Discount Account is shown on the Asset side of the Balance Sheet.

An example, showing the method of treatment is appended.

On 1st January, 19—, the Blank Company, Limited, issued £30,000 Six per cent First Mortgage Debentures at £90 per cent payable £10 per cent on application and the balance on allotment. The debentures are repayable at par at the end of ten years. Assuming that the exact amount of debentures were applied for by the public and that allotment took place on 10th January, the entries in the company's books will appear as follows—

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19..			£	s.	d.	£	s.	d.
Jan. 10	Debenture Application and Allotment Account <i>Dr.</i>	2	27,000	-	-			
	Debenture Discount Account <i>Dr.</i>	3	3,000	-	-			
	To 6 p.c. Mortgage Debentures <i>Being amounts payable on application (10%) and allotment (80%) on the issue of 300 First Mortgage Debentures (6%) of £100 each, and the amount of the discount. (Vide Minute Book Resolution No.)</i>	1				30,000	-	-
End of 1st year								
Dec. 31	Profit and Loss Account <i>Dr.</i>							
	To Debenture Discount A/c <i>Being amount written off at end of first year</i>	3	300	-	-		300	-

N.B.—The benefits derivable from the employment of the borrowed money being spread over ten years (the "life" of the debentures); it appears equitable that the loss incurred through issuing the debentures at a discount should be equalized over that period, hence one-tenth of the total discount is written off each year.

Debentures Redeemable at a Premium.

Another method which is sometimes adopted is to issue debentures at par and undertake to redeem them at a premium, e.g. a £100 debenture being redeemable at £105. Alternatively, they may be issued at a discount, say £96 and redeemable at £105, the amount of the discount and/or the premium varying with the financial position of the company and the state of the money market at the time of issue. In these cases, it is usual to raise a Sinking Fund composed of sums set aside annually and invested at compound interest for the purpose of redeeming the debentures at their maturity.

Sinking Funds for Redemption of Debentures.

Debentures are usually secured by a Trust Deed executed by the company in favour of

Dr.		CASH BOOK					Cr.	
19..			£	s.	d.			
Jan. 5	To Debenture Appn. and Allotment A/c for amounts received on application	2	3,000	-	-			
" 12	To Debenture Application and Allotment A/c for amounts received on allotment	2	24,000	-	-			
Dr.		6 PER CENT MORTGAGE DEBENTURES A/C					1 Cr.	
					19.. Jan. 10	By Sundries	J £ 30,000 - -	
Dr.		DEBENTURE APPLICATION AND ALLOTMENT A/C					2 Cr.	
19..			£	s.	d.	19..	£	
Jan. 10	To Debenture A/c	J	27,000	-	-	Jan. 5	By Cash	CB 3,000 - -
					" 12	By Cash	CB 24,000 - -	
			£27,000	-	-			£27,000 - -
Dr.		DEBENTURE DISCOUNT ACCOUNT					3 Cr.	
19..			£	s.	d.	19..	£	
Jan. 10	To Debenture A/c	J	3,000	-	-	Dec. 31	By Profit and Loss	J 300 - -
					" 31	By Balance c.d.	✓ 2,700 - -	
			£3,000	-	-			£3,000 - -
Dec. 31	To Balance b.d.	✓	2,700	-	-			

Debentures Issued at a Premium.

When debentures are issued at a premium, the result of the transaction is that the investor pays, say £102 for the privilege of receiving back £100 at some future date, coupled with the right to receive interest at a fixed rate during the intervening period. It is very rare that debentures are issued upon such terms and it can only occur when the company is in an exceptionally sound financial position. The entries in the financial books are upon exactly the same lines as when shares are issued at a premium. These entries are explained in the previous chapter on share capital,

trustees on behalf of the debenture holders, and the deed includes, *inter alia*, provisions relating to the sinking fund. The annual instalments for the sinking fund are, for the protection of the debenture holders, paid to and invested in the names of the trustees. The precise method adopted varies. In some cases, investments are made in gilt-edged securities, whilst in others a pure endowment policy is taken out with an insurance company. At maturity, the investments or the insurance policy, as the case may be, are realized and the cash proceeds are utilized in paying off the debentures. Where the investments depreciate in value, the annual instalments may have to be

increased to provide the requisite amount at maturity.

The entries in the financial books are indicated in the following *pro forma* journal entries. To preserve the correct sequence, the cash entries also are shown in journal form.

19..		Dr.	Cr.
1st year	Profit and Loss Account Dr. To Sinking Fund Being amount of annual instalment transferred.	—	—
	Investment Account Dr. To Cash Being amount invested	—	—
	Profit and Loss Account Dr. To Sinking Fund Being amount of annual instalment transferred.	—	—
Second and succeeding yrs.	Cash Dr. To Sinking Fund Being interest received on investments.	—	—
	Investment Account Dr. To Cash Being amount of annual instalment and interest invested.	—	—
	Cash Dr. To Investment Account Being amount received on realization of investments.	—	—
At maturity	Investment Account Dr. To Sinking Fund Being amount of profit realized on sale investments. N.B.—If a loss occurs, sinking fund is debited and investment amount credited.	—	—
	Debenture Account Dr. To Cash Being amount of debentures paid off.	—	—

The amount at the credit of the sinking fund is shown, in successive years, on the liability side of the balance sheet, whilst the debit balance of the investment account is included amongst the assets.

When the investments are realized and the debentures redeemed, these two accounts are closed whilst the amount at credit of the Sinking Fund, which has been built up out of profits, may be transferred to reserve.

Where an endowment insurance policy is taken out, similar entries are made but an "Insurance Policy Account" takes the place of the Investment Account, and annual adjustments between the policy account and the sinking fund are made so that the surrender value of the policy is shown in the company's books and balance sheet.

Redemption by Drawings or Purchase.

The conditions of issue and the trust deed sometimes provide that redemption shall be effected by means of annual drawings at par or by purchase in the open market when the price falls below par. In such cases, the drawings or purchases are effected by the trustees or under their supervision.

A Debenture Redemption Account is opened and to this account is debited the amounts paid for the redeemed debentures, adjustments being made for accrued interest. The nominal value of the debentures is credited to this account and debited to the Debentures Account. Where a credit balance (owing to purchases under par) exists in the redemption account, such balance may be transferred to a Debenture Suspense

Dr.		DEBENTURE REDEMPTION ACCOUNT				Cr.			
19..			£	s.	d.	19..	£	s.	d.
Feb. 15	To Cash					Feb. 15	By Deb. Int. A/c accrued interest		
	£600 debs. at 96		576	—	—		£1000 at $\frac{1}{2}$ per cent.	7	10
	£400 debs. at 96 $\frac{1}{2}$		386	—	—		By Debenture A/c amount		
	Expenses		2	12	6	" 15	redeemed	1,000	—
" 15	To Balance transferred to								
	Suspense A/c		42	17	6				
			£1,007	10	—			£1,007	10

Dr.		6 PER CENT MORTGAGE DEBENTURES ACCOUNT				Cr.					
Feb. 15	To Deb. Redemption Account		£	s.	d.	Feb. 15	By Sundries		£	s.	d.
" 15	To Balance c.d.		1,000	—	—				50,000	—	—
			49,000	—	—						
			£ 50,000	—	—				£ 50,000	—	—
							By Balance b.d.		£ 49,000	—	—

The balance of this account represents the amount of debentures still outstanding.

Dr.	DEBENTURE INTEREST ACCOUNT	Cr.
Feb. 15 To Deb. Redem. A/c . . .	7 10 0	

Dr.	DEBENTURE SUSPENSE ACCOUNT	Cr.
		Feb. 15 By Deb. Redem. A/c . . .
		42 17 6

Account until the debentures are wholly redeemed. If the debentures were issued at a discount, the profit made on purchases under par may be set off against the discount. Alternatively, it may be used for the payment of redemption expenses but if not required in this connection, the Suspense Account may be ultimately transferred to Reserve.

EXAMPLE.—A company issues 1,000 Six per Cent Mortgage Debentures of £50 each, interest being payable half-yearly on 1st January and 1st July, and the trust deed provides that debentures to the amount of £1,000 shall be redeemed annually, either by drawings at par or by purchase under par.

The first instalment is applied, on 15th February, 19... in the purchase of £600 debentures at 96 and £400 at 96½, these prices including accrued interest amounting to 15s. per cent. The expenses were £2 12s. 6d.

The Ledger accounts for these transactions will appear as shown at foot of opposite page.

CHAPTER V

BALANCING THE SHARE AND DEBENTURE HOLDERS' LEDGERS

We have shown in an earlier chapter that the financial books record summary accounts for share

capital and debentures; the individual accounts for each shareholder and debenture holder being kept in the Register of Members and Share Ledger, and Register of Debenture Holders respectively. Periodically, these registers must be balanced and lists compiled showing the amount of each member's holding, the totals being agreed with the balance at the credit of the share capital and debenture accounts in the financial books. These lists are required for purposes of dividend distribution and for the preparation of the Annual Return of Members prescribed by sec. 26 of the Companies (Consolidation) Act, 1908.

Where the capital is held by only a few members, this agreement of the total of the members' accounts with the total capital issued is easily accomplished. But with large companies and where there are many shareholders a systematic method should be adopted to prove the correctness of the registers in the same way that the debtors and creditors ledgers are regularly balanced as part of the ordinary routine of the accounts department.



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Self-Balancing Registers.

For companies with a large shareholding and where numerous transfers occur, it is desirable that the share registers, etc., should be arranged on the self-balancing principle, and for this purpose, the Register of Transfers will require to be analysed in order to ascertain the total number of transfers "into" or "out" of the shareholders' names in each share ledger. The following form may be adopted.

asking that the shares be transferred into their own names in their personal capacity, or upon the death of one joint-holder in a joint account. Similar analysis statements are required for these changes.

The Adjustment Summary.

The total number of shares in each ledger at the commencement of the period will, of course, be known and at the end of the period, the totals of the analysis statements will require to be

ANALYSIS OF TRANSFERS.

Transfer No.	NAME	No. of Shares	TRANSFERS "OUT"			TRANSFERS "IN"		
			A to K Ledger	L to Q Ledger	R to Z Ledger	A to K Ledger	L to Q Ledger	R to Z Ledger
1	Brown to Robinson	50	50					50
2	Smith to Jones	25			25	25		
3	Black to Moore	100	100				100	
4	Lee to Hare	125		125		125		
		300	150	125	25	150	100	50
			300			300		

Each page of the Transfer Register will require to be analysed in the above manner. The column for the name may be omitted if desired; it is here given so as to illustrate clearly the method.

In addition to the transfers arising through members selling their shares, changes in the accounts occur through marriage and death of shareholders, or the change of name by deed poll. The transfer of an account from one share ledger to another may arise through the change of name, either by marriage or deed poll, and in the same way, a similar alteration may occur if the executor or administrators of a deceased member send a "letter of request"

added or deducted, as the case may be, to the commencing total for each ledger. The adjustment summary may be prepared in the following or similar manner.

If the "Letters of Request" are treated as the equivalent of transfers and recorded in the Register of Transfers, they will not appear as a separate item in the above adjustment.

The final combined total represents the total number of shares issued and must, of course, correspond with the equivalent amount entered in the financial books of the company. Registers of Debenture Holders may be balanced and their correctness proved in a similar manner.

SHARE LEDGER ADJUSTMENT, 31st December, 19..

	Ledger A to K	Ledger L to O	Ledger R to Z	TOTAL	
	Shares	Shares	Shares		Shares
Commencing Balance	28,500	36,450	35,050		100,000
Add Transfers "In"	7,500	8,500	9,500		25,500
" Marriages	100	250	—		350
" Deed Poll	—	100	—		100
" Letters of Request	1,000	800	700		2,500
" Joint Holders	500	—	—		500
	37,600	46,100	45,250		128,950
Deduct Transfers "Out"	8,000	9,000	8,500	25,500	
" Marriages	150	100	100	350	
" Deed Poll	100	—	—	100	
" Letters of Request	800	900	800	2,500	
" Joint Holders	—	500	—	500	
	9,050	10,500	9,400		28,950
Closing Balance	28,550	35,600	35,850		100,000

CHAPTER VI

APPROPRIATION OF PROFITS, DIVIDENDS, ETC.

THE profits of a limited company are appropriated and distributed amongst its members by way of dividend in accordance with the rights conferred upon the different classes of shares by its memorandum and articles of association. The articles also prescribe the procedure to be observed and, in most cases, the proposed allocation of profits must be sanctioned by the shareholders in general meeting. An exception to this rule is the payment of interim dividends for which the articles commonly give authority to the directors.

The general practice is for each year's net profits as shown by the audited profit and loss accounts, to be transferred to an Appropriation Account and against these net profits are charged the amounts transferred to reserve, dividends paid, etc.; the balance of the account being carried forward to the following year.

EXAMPLE.—A company's audited accounts at 31st March, 19x1, show a net profit for the year amounting to £9,810 12s. 6d. and, in addition, there is an unappropriated balance of £650 5s. 0d. brought forward from the previous year. At the annual general meeting held on 10th June, resolutions were passed (1) transferring £1,500 to reserve, (2) declaring a dividend of 5 per cent (subject to deduction

of income tax at 4s. 6d. in the £) on 50,000 Six per cent Preference Shares of £1 each, and (3) declaring a dividend of 10 per cent (free of tax) on 50,000 Ordinary Shares of £1 each, the balance being carried forward.

The ledger accounts giving effect to these resolutions will appear as given below.

The detail work in connection with the payment of dividends is dealt with in the section on Company Secretarial Work. It may be added, however, that a separate banking account is opened for each dividend ; an amount equal to the total net dividend payable being transferred from the company's general banking account to the dividend account.

Each dividend should be consecutively numbered, this number appearing on the dividend warrants, dividend pass book and ledger accounts.

Unpaid Dividends.

At the close of each financial year the amount of unpaid dividend must be brought into the company's books, and this is best accomplished by means of a journal entry as follows—

19..	Bank Dividend A/c No. <i>Dr.</i> To Unpaid Dividends <i>Being amount of dividends un-</i> <i>paid as per list</i>		£ —	s. d. —	£ —	s. d. —
------	--	--	--------	------------	--------	------------

The total of these unpaid dividends (which must, of course, agree with the pass book balance) is

PROFIT AND LOSS APPROPRIATION ACCOUNT—31st December, 19..				Dr.	Cr.
To Reserve Account	£	1,500	s. d. — —	By Balance b.f.	£ 650 5 —
To Pref. Dividend		3,000	— —	By Net profits for year	9,810 12 6
To Ord. Dividend		5,000	— —		
To Balance c.d.		960	17 6		
	£	10,460	17 6	By Balance c.d.	£ 960 17 6
RESERVE ACCOUNT				Dr.	Cr.
			19—	By Balance b.f.	£ — — —
				By P. & L. Appn. Account	1,500 — —
PREFERENCE DIVIDEND NO.... ACCOUNT				Dr.	Cr.
To Cash	£	2,325	s. d. — —	By P. & L. Appn. Account	£ 3,000 — —
To Income Tax		675	— —		
	£	3,000	— —		£ 3,000 — —
ORDINARY DIVIDEND NO.... ACCOUNT				Dr.	Cr.
To Cash	£	5,000	s. d. — —	By P. & L. Appn. Account	£ 5,000 — —
INCOME TAX ACCOUNT				Dr.	Cr.
				By Pref. Div. Account	£ 675 — —

shown as a liability in the balance sheet and the pass book balance will be included in the item "Cash at Bank."

When paid subsequently, a reversing journal entry must be made, viz.—

		£	s.	d.	£	s.	d.
19..	Unpaid Dividend Account Dr. To Bank Dividend A/c No. Being payment of dividends.				—		

Dividends "Free of Income Tax."

Where there are two or more classes of shareholders, the general rule is that for the preference shares whose dividends are limited to a fixed rate, income tax must be deducted from those dividends. The contract between the company and its preference shareholders is to pay a dividend at a fixed rate. If it is paid "free of tax," the effect is to increase the dividend and any such increase beyond the fixed rate is *ultra vires* and illegal, unless the company's articles of association and the terms upon which the preference share capital was issued expressly provide for the payment of the preference dividend "free of tax." Any such provision, however, is somewhat rare. Income tax must also be deducted from payments of debenture interest.

With regard to dividends on ordinary shares, as the balance of profits (after payment of the preference dividend) really belong—in their entirety—to the ordinary shares, the question of deduction of tax is primarily a matter for decision by the shareholders themselves. To be effective, however, the wording of any resolution for the payment of dividends "free of tax" must be unmistakably clear.

In all cases, whether or not income tax is deducted from dividend the company is directly assessed to income tax upon its profits. Any amounts so deducted from dividends are, therefore, available to reduce the tax paid and the amount debited to profit and loss in respect of income tax is correspondingly lessened.

Pre-Incorporation Profits.

From a legal viewpoint, a company cannot "earn" and distribute profits made prior to incorporation. Hence, where a company is incorporated on, say 1st March, and takes over an existing business as from 1st January, it must not distribute as dividends the profits applicable to the period 1st January to 28th February. Obviously, the vendor will include in the purchase price such a sum as will compensate him for the loss of these two months' profit.

Pre-incorporation profits must, therefore, be capitalized. They may be transferred to "Capital Reserve" or used in the reduction of some intangible asset such as goodwill. Where, however,

the sale contract fixes the purchase price as the value at 1st January, the vendor receiving interest on the purchase price, such interest may be set-off against the pre-incorporation profits. There are two methods of apportionment, viz., according to time or turnover, and, although these two methods usually yield divergent results, either method may be quite legitimately employed.

EXAMPLE.—Assuming that the profits for the year amounted to £6,600, the turnover for January and February being £13,000 and March to December £52,000, the pre-incorporation profits may be determined thus—

Time :	Profits for Jan. and Feb. = $\frac{12}{12}$ of £6,600 =	£1,100
" "	" " March to Dec. = $\frac{12}{12}$ of £6,600 =	5,500
		£6,600

Turnover :	Profits for Jan. and Feb. = $\frac{12}{12}$ of £6,600 =	£1,320
" "	" " March to Dec. = $\frac{12}{12}$ of £6,600 =	5,280
		£6,600

Dividends in form of Bonus Shares.

In order to bring the issued share capital more into harmony with the values of its assets, successful companies sometimes utilize their surplus or reserved profits in the issue of bonus shares credited as fully paid. The articles must contain suitable regulations and special resolutions must be passed authorizing the issue. The entries in the financial books are indicated by the following *pro forma* Journal entry.

		£	s.	d.	£	s.	d.
Reserve Account	Dr.	—					
Profit and Loss Account	Dr.	—					
To Bonus Account					—		
For amounts transferred							
Bonus Account	Dr.	—					
To Share Capital Account					—		
For allotment and issue of shares Nos. to credited as fully paid in satisfaction of dividend declared on (Vide Minute Book Resolution No.)							

CHAPTER VII

FORFEITED SHARES AND THEIR REISSUE

THE articles of association of most limited companies contain clauses empowering the company, if a shareholder defaults in the payment of calls due, to forfeit the shares. The procedure is governed by the provisions of the company's articles and its effect may be summarized thus—

1. The shareholder ceases to be a member of the company and loses all rights and interest in the shares; all moneys paid becoming the company's absolute property.

2. Where the company's articles authorize, the shareholder may be sued for the calls he has failed to pay.

3. The company may reissue the shares to any person "on such terms and conditions" as the directors think fit, provided that the combined total amount received and receivable by the company from the defaulting shareholder and the new purchaser is not less than the full nominal amount of the shares.

Entries Required upon Forfeiture.

Upon forfeiture, the position is that the full amount called up on the shares forfeited has been credited to the Share Capital Account whilst the Cash Account will include the amount actually paid and the Call Account will show a debit balance for the unpaid calls.

The cash paid remains in the company's possession, but as the shares have been cancelled, neither the shares nor the money received form part of the company's capital; hence the capital and call accounts require adjustment. The entries required are as follows—

1. Debit Share Capital Account with the full amount called up on the shares, the same amount being credited to a Forfeited Shares Account.

2. Debit the Forfeited Shares Account with the amount of the unpaid calls and credit the appropriate Call Account, thus clearing the latter account.

The balance of the Forfeited Shares Account represents the amount received on the shares prior to forfeiture and, as it is practically a profit to the company, it appears as a credit balance. Pending the reissue of the shares, however, it must be treated as a suspense account and be shown as a separate item on the liability side of the Balance Sheet.

If the defaulting shareholder, after forfeiture, ultimately pays the arrears, the moneys received also should be credited to the Forfeited Shares Account.

Reissue of Forfeited Shares.

The directors have power to re-issue the forfeited shares and if such reissue is at their full nominal value, the entries required are similar to those made on an issue of new capital. From a technical viewpoint, the reissue is not, strictly speaking, an allotment and, therefore, in lieu of an Applications and Allotment Account, a Shares Reissued Account is opened, this account being debited with the amounts due and Share Capital Account credited. Upon payment, the amount received is credited to the Shares Reissued Account, which is then closed.

In some cases, however, such shares are re-issued at a discount to the new purchaser, but such discount must not exceed the amount the company

has already received on the shares. For example, forfeited shares of £1 each on which the company has received 5s. per share may be reissued credited with an amount paid on the shares not exceeding 5s. per share. The amount credited as paid must, in such cases, be retransferred from the Forfeited Shares Account to the credit of Share Capital Account, so that the latter account is credited with the full nominal value of the shares.

Any balance remaining at the credit of Forfeited Shares Account is a realized "capital profit," but it must not be issued for revenue purposes, i.e. transferred to credit of profit and loss. The correct method is to transfer the balance to a Premium on Shares Account and deal with it accordingly.

Entries in the Share Ledgers.

The defaulting shareholder's account should be closed and the shares transferred to a Forfeited Shares Account. Upon reissue, the shares are re-transferred from the Forfeited Shares Account to a new account in the name of the purchaser.

It is a convenient method to enter particulars in the Register of Transfers. Upon forfeiture, the defaulting shareholder is treated as the transferor and "Forfeited Shares Account" as the transferee, whilst upon reissue "Forfeited Shares" is the transferor and the purchaser is treated as being the transferee.

EXAMPLE.—On 1st July, 19.., the directors of The Blank Company, Ltd., pass a resolution forfeiting 300 shares of £1 each (Nos. 601 to 900) for non-payment of calls. There was 12s. 6d. per share paid on the shares, the second and final call of 7s. 6d. per share being unpaid. The company's capital consisted of 50,000 shares of £1 each fully called up.

On 1st August, 19.., the shares were reissued to Arthur Brown credited with 4s. per share paid up; the balance of 16s. per share being paid on 2nd August. Show the entries in the company's financial books.

JOURNAL

19..		£	s.	d.	£	s.	d.
July 1	Share Capital Account <i>Dr.</i> To Forfeited Shares Account <i>Being forfeiture of 300 shares Nos. 601 to 900 for non-payment of calls (Vide Minute Book, Resolution No.)</i>	300	—	—	300	—	—
July 1	Forfeited Shares Account <i>Dr.</i> To Second Call Account <i>Being amount unpaid on shares forfeited as above—300 shares at 7½ each</i>	112	10	—	112	10	—
Aug. 1	Shares Reissued Account <i>Dr.</i> Forfeited Shares Account <i>Dr.</i> To Share Capital Account <i>Being re-issue of shares Nos. 601 to 900, credited as 4s. paid to Arthur Brown</i>	240	—	—	60	—	—
Aug. 2	Forfeited Shares Account <i>Dr.</i> To Premium on Shares A/c <i>Being transfer of balance.</i>	127	10	—			127 10 —

LEDGER

<i>Dr.</i>		SHARE CAPITAL ACCOUNT		<i>Cr.</i>	
19..		£ s. d.	19..	£ s. d.	
July 1	To Forfeited Shares . . .	300 --	July 1	By Balance . . .	50,000 --
" 1	To Balance c.d. . . .	49,700 --			
		50,000 --			50,000 --
Aug. 1	To Balance c.d. . . .	50,000 --	" 1	By Balance b.d. . . .	49,700 --
		£ 50,000 --	Aug. 1	By Shares Reissued . . .	300 --
					£ 50,000 --
			" 1	By Balance b.d. . . .	50,000 --
<i>Dr.</i>		SECOND CALL ACCOUNT		<i>Cr.</i>	
19..		£ s. d.	19..	£ s. d.	
July 1	To Balance	112 10 --	July 1	By Forfeited Shares . . .	112 10 --
<i>Dr.</i>		FORFEITED SHARES ACCOUNT		<i>Cr.</i>	
19..		£ s. d.	19..	£ s. d.	
July 1	To Second Call	112 10 --	July 1	By Share Capital	300 --
	To Balance c.d.	187 10 --			
		£ 300 --			£ 300 --
Aug. 1	To Spare Capital	60 --	" 1	By Balance b.d.	187 10 --
	To Premium on Shares . . .	127 10 --			
		187 10 --			187 10 --
<i>Dr.</i>		SHARES REISSUED ACCOUNT		<i>Cr.</i>	
19..		£ s. d.	19..	£ s. d.	
Aug. 1	To Share Capital	240 --	Aug. 2	By Cash	240 --
<i>Dr.</i>		PREMIUM ON SHARES ACCOUNT		<i>Cr.</i>	
			19..	£ s. d.	
			Aug. 2	By Forfeited Shares . . .	127 10 --
<i>Dr.</i>		CASH ACCOUNT		<i>Cr.</i>	
19..		£ s. d.		£ s. d.	
Aug. 1	To Balance	-- --			
" 2	To Shares Reissued Account .	240 --			

CHAPTER VIII

ALTERATIONS AND ADJUSTMENTS OF CAPITAL

THE capital of a limited company is fixed by its memorandum and articles of association, and alterations may be made only in accordance with the provisions of the Companies Acts. These alterations include—

Increase of capital.

Conversion of paid-up shares into stock.

Re-conversion of stock into shares.

Consolidation, division and subdivision of the share capital.

Reorganization of capital.

Reduction of capital.

The procedure is outlined in secs. 40 to 56 of the Companies (Consolidation) Act, 1908, and further regulations are invariably contained in each company's articles of association. For most alterations, the sanction of the shareholders must be obtained by special resolution, whilst reorganization and reduction of capital require the confirmation of the court.

Increase of Capital.

The financial books are affected by an increase of capital only when a further issue is made, and the accounts required to record the additional issue are exactly similar to those for the first issue on the formation of the company. Share capital account is credited whilst application, allotment and call accounts are dealt with as already outlined.

Conversion of Paid-up Shares into Stock.

This transaction is, in effect, merely the alteration in name of the company's capital and, ordinarily, the only entries required in the financial books are the closure of the old share capital account and the opening of the new stock account. In some cases, however, the conversion is accompanied by a revision of the company's liability to its shareholders, as, for example, when a smaller or greater amount of stock is issued than the nominal value of the shares.

EXAMPLE No. 1.—A company whose capital consists of 100,000 shares of £1 each, fully paid, converts its shares into stock of equal value.

Ordinary Share Capital A/c Dr. To Ordinary Stock Account Being conversion of 100,000 Ordinary shares of £1 each into stock at par in accordance with special resolution of 19 (Vide Minute Book, Resolution No.)	£	s.	d.	£	s.	d.
	100,000	—	—	100,000	—	—

This transaction results in the closure of the old capital account and the opening of a new account of equal amount in its place.

EXAMPLE No. 2.—A company whose capital consists of 100,000 shares of £1 each, fully paid, converts its shares into stock at the rate of £95 stock for £100 shares.

Ordinary Share Capital A/c Dr. To Ordinary Stock Account To Premium on Stock A/c Being conversion of 100,000 Ordinary shares of £1 each into Stock at the rate of £95 stock for every £100 shares in accordance with special resolution of 19 (Vide Minute Book, Resolution No.)	£	s.	d.	£	s.	d.
	100,000	—	—	95,000	—	—
				5,000	—	—

This transaction necessitates the opening of a new account, the Premium on Stock Account, which is dealt with in the same way as premium on shares. The company's liability to its members is reduced by the amount of the premium.

EXAMPLE No. 3.—A company whose capital consists of 100,000 shares of £1 each, fully paid, converts its shares into stock at the rate of £110 stock for £100 shares, £10,000 being transferred from the reserve fund in satisfaction of the increased amount of stock.

Ordinary Share Capital Account Reserve Account Dr. To Ordinary Stock Account Being conversion of 100,000 Ordinary shares of £1 each into Stock at the rate of £110 stock for every £100 shares in accordance with special resolution of 19 (Vide Minute Book, Resolution No.)	£	s.	d.	£	s.	d.
	100,000	—	—	110,000	—	—
	10,000	—	—			

The effect of this transaction is to increase the nominal amount of stock. It is permissible only when sufficient balances exist at the credit of reserve and the company possesses assets to an equal value.

SHARE AND STOCK LEDGERS.—The members' accounts in the share ledgers must be closed and new accounts opened in the stock ledgers. In form, the stock ledgers are similar to the share ledgers but the columns for the distinctive numbers of the shares are not required in the stock ledger. To facilitate the detail work of opening the new ledgers and issuing the new certificates, Stock Conversion Sheets should be prepared containing full particulars relating to each member's account. A specimen ruling is appended below.

The re-conversion of stock into shares is effected in a similar manner.

Consolidation, Division, and Sub-division.

The effect of consolidation and division or sub-division of the share capital into larger or smaller shares is to re-arrange the capital into more suitable denominations and new accounts are opened accordingly. These alterations do not, as a rule, affect the company's liability to its members or the latter's rights.

Consolidation often arises where a company's capital consists of two or more classes of shares for which it is desired to substitute one new class. Where shares are of too low a nominal value, say 2s., they may be consolidated and ten shares of 2s. each exchanged for one £1 share. Shares which are of too large a value, e.g. £10 shares may be subdivided into ten shares of £1 each.

EXAMPLE.—A company whose capital consists of 10,000 Ordinary Shares of £5 each and £5,000 Preference Shares

STOCK CONVERSION SHEETS

MEMBERS.			SHARES.					STOCK.				REMARKS.	
Names	Addresses	Descrip'n or Occupat'n	Led. Fo.	No. of Shares	Distinctive Nos.		Old Cer- tificate Nos.	Date issued	Led. Fo.	Amount of Stock			New Cer- tificate No.
					From	To.				£	s.		

of £10 each consolidates and divides its capital into one new class consisting of £100,000 Ordinary Shares of £1 each.

	£	s.	d.	£	s.	d.
Old Ordinary Share Capital A/c						
Dr.						
Preference Share Capital A/c	50,000	--	--			
Dr						
To New Ordinary Share Capital	50,000	--	--			
Being consolidation and division				100,000	--	--
of 10,000 Ordinary Shares of £5						
each and 5,000 Preference Shares						
of £10 each into one new class						
consisting of Ordinary Shares of						
£1 each.						
(Vide Minute Book, Resolution						
No.)						

2. Pay off any paid-up share capital which is in excess of the company's wants or requirements.

3. Cancel any paid-up share capital which is lost or unrepresented by available assets.

Only that capital which has been called up is recorded in the Share Capital Account, hence reductions of uncalled and unpaid capital do not affect the company's financial books.

Where paid-up capital in excess of the company's wants is returned to shareholders, the following entry should be passed through the journal.



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Reorganization of Share Capital.

Reorganization usually involves a total re-arrangement of the share capital and a revision of the rights of the members. The effect upon the financial books is that the old share capital accounts are closed and new accounts are opened to correspond with the revisions sanctioned.

Reduction of Share Capital.

The Companies Acts provides that reduction of capital may be effected as follows—

1. Extinguish or reduce liability on share capital not paid up.

	£	s.	d.	£	s.	d.
Share Capital Account						
Dr.						
To Capital Reduction A/c						
Being amount of reduction of						
capital returnable to the share-						
holders in accordance with the						
special resolution of 19						
confirmed by order of the court						
19						
(Vide Minute Book, Resolution						
No.)						

The old share certificates are called in and either endorsed with particulars of the reduction or new certificates issued; cheques being forwarded to the members for the amount returned. The total payment to members is debited to Capital

More usually, reduction of capital occurs when the company has been unsuccessful and part of its capital "is lost or unrepresented by available assets." In such cases, the Capital Reduction Account is credited with the amount written off share capital and debited with the amounts transferred from various asset accounts, the latter being extinguished or reduced to their true value.

<i>Capital and Liabilities</i>	<i>£</i>	<i>Assets</i>	<i>£</i>
Share Capital	500,000	Goodwill	50,000
		Sundry Assets	400,000
Sundry Creditors	6,700	Sundry Debtors	10,200
		Cash	500
		Profit and Loss	46,000
	<u>£506,700</u>		<u>£506,700</u>

Share Capital Account <i>Dr.</i> To Capital Reduction A/c <i>Being cancellation of capital in accordance with special resolu- tions of 19.., sanctioned by order of the Court dated</i>	£ s. d. 250,000 — —	£ s. d. 250,000 — —
Capital Reduction A/c <i>Dr.</i> To Profit and Loss A/c To Goodwill To Sundry Assets	£ s. d. 250,000 — —	£ s. d. 46,000 — — 50,000 — — 154,000 — —
<i>Being amounts written off these accounts in accordance with scheme approved by the share- holders and sanctioned by the Court.</i>		

For all adjustments of capital, whether consolidation, division, subdivision, reorganization or reduction, the performance of the detail work in the closure of old share registers, opening new ones, issuing new certificates, etc., is facilitated by preparation of lists showing detailed particulars of each member's present holding, their holding under the revised scheme, etc. These lists may be prepared in the same manner as the Stock Conversion Sheets shown on page 1101.

CHAPTER IX

AMALGAMATIONS AND RECONSTRUCTIONS

COMPANIES doing the same class of business often find it advisable to enter into mutual working arrangements and, in many cases, these arrangements develop into amalgamations, fusions, or

more complete absorption. There are many different methods adopted but space will not permit of a discussion of all the interesting variations which arise. The following condensed examples, however, are typical of those which arise in practice.

The acquirement of a controlling interest by one company in another is, in effect, an investment in the other company's shares. For example, the A Co. Ltd. acquires the greater portion of B Co.'s shares. The only entries in the purchasing company's financial books are a debit to an investment account, "Shares in B Co. Ltd.," and a credit to cash account. The B Co. still continues its separate existence and its financial books are not affected. What really occurs is a change of shareholders; the old shareholders' accounts in the Register of Members being closed and new accounts opened in the names of the nominees of the A Co. Ltd.

A common form of amalgamation is that where two companies agree to combine and promote a new company to take over their businesses as going concerns, the vendor companies going into voluntary liquidation. The liquidators of the old companies are in the position of vendors and they receive the purchase consideration which is distributed amongst their shareholders. For the new company, the entries upon formation are upon the lines already described in Chapters I and II whilst those for the old companies are indicated in the following *pro forma* journal entries.

A variation of this method occurs where two

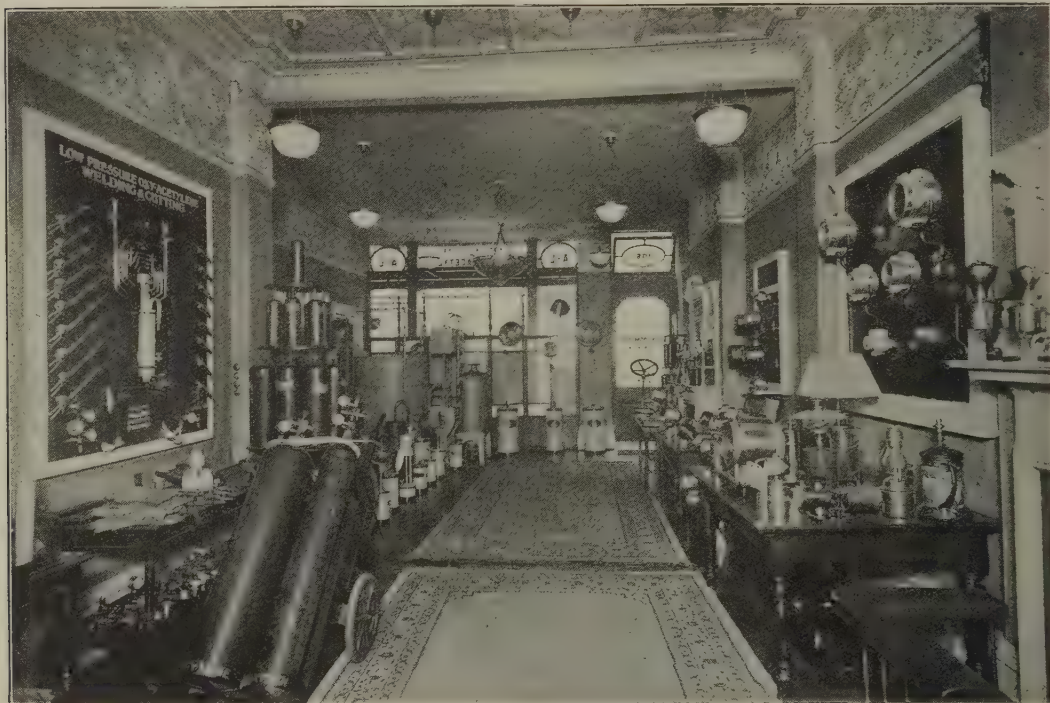
	£	s. d.	£	s. d.
Disposal of Business A/c To Sundry Assets <i>Being book value of assets transferred.</i>	—	—	—	—
Sundry Liabilities To Disposal of Business A/c <i>Being book value of liabilities transferred.</i>	—	—	—	—
Disposal of Business A/c To Cash <i>For expenses of liquidation</i>	—	—	—	—
New Company To Disposal of Business A/c <i>Being agreed consideration for sale of business.</i>	—	—	—	—
Shares Cash To New Company <i>Being payment of consideration</i>	Dr. Cr. — —	— —	—	—
Disposal of Business A/c To Profit and Loss A/c <i>Being profit on sale of business</i>	Dr. —	—	—	—
Share Capital Account Profit and Loss Account To Shares To Cash <i>Being distribution of shares and cash amongst shareholders.</i>	Dr. Dr. — — —	— — —	—	—

companies combine to promote a new company (technically known as a holding company) to acquire their shares. In such cases, the old companies retain their separate existence but the shareholders exchange their shares for shares in the new company. The assets of the new company nominally consist of shares in the old companies but, in reality, the new company is the absolute owner of the old company's business,

in similar manner to that indicated in the preceding example.

Reconstruction.

Schemes of reconstruction may be formulated under either sec. 120 or sec. 192 of the Companies Act, the former section including schemes of arrangement with the company's creditors. Broadly speaking, reconstruction



Photo

A SPACIOUS SHOWROOM
(Allen-Liversidge, Ltd.)

Kealeys, Ltd.

and is entitled to receive the whole of the divisible profits.

The financial books of the old companies are not affected, as only a change of shareholders occurs; the new company's books are written up in the ordinary way.

Amalgamation by Absorption.

A method which may be termed "amalgamation by absorption" is adopted when one company acquires the business of another, the latter company going into liquidation and its separate existence being terminated. The entries in the purchasing company's books are similar to those of a new company acquiring an existing business whilst the vendor company's books will be closed

schemes involve the supply of further capital by its members as, for example, when fully paid £1 shares are surrendered for shares of £1 each in a new company, credited as 15s. paid. Where creditors are concerned, the scheme may provide for the issue of shares or debentures in satisfaction of the debts due.

Such schemes usually necessitate the voluntary liquidation of the old company and the formation of a new company to take over the assets and call up any additional capital required. The entries in the financial books of the old company are upon similar lines to those of the liquidation of a vendor company in an amalgamation, whilst the entries in the books of the new company proceed in the ordinary manner.

SECTION 50

The Recovery of Debts in the County Court

By R. W. HOLLAND, O.B.E., M.A., M.Sc., LL.D.

CHAPTER I INTRODUCTORY

THIS section is not intended to suggest to the trader that it is judicious to act as his own lawyer. Indeed, the statement of the law for the instruction of laymen should always be directed towards the pointing out of dangers and difficulties and towards interpretation, rather than towards the substitution of the written word for the experience of the lawyer. The aim of the legal section is rather to prevent litigation than to foster it, but there comes a time in the history of most business building when the machinery of the law must be set in motion. In the majority of such cases the wise man will at once seek expert and reliable advice coupled with the personal service of the lawyer. There are small cases, however, in which the business man can help himself.

Every business man is interested in that item of debit against his profit known as "bad and doubtful" debts, an item which will eat into his turnover unless he watches it very carefully. In the long run he will have to decide whether he shall invoke the assistance of the courts in order to recover some of the outstanding amounts. The County Court is the usual channel through which proceedings for the recovery of debts will be taken, indeed the main work of this court is that of a State organized debt collector.

In theory a person has access to the courts without the interposition of a legal representative, but the procedure is so involved from a lay point of view that few people would essay the task of presenting their own case. Nevertheless the procedure in debt-recovery in the County Court is so much more simple and the assistance rendered by the court officials is so helpful that in a straightforward case the man who can spare the time may easily undertake the recovery of money due to him.

County Courts.

The country is mapped out into districts each having a County Court, and every place in England and Wales falls into some County Court District. As it is important to know the district in which your place of business is situated, or in which your

debtor resides or carries on business, it is well to look up this at a County Court office, or to purchase from His Majesty's Stationery Office, Kingsway, London, W.C.2, the Annual Alphabetical List, which shows the appropriate County Court for every parish in the Kingdom.

Officers of the Court.

The important officers of the court are the judge, who presides over a circuit or group of courts, the registrar who is the person responsible for official routine, and the high bailiff who may be the same person as the registrar but in his capacity of high bailiff he sees that the judgments of the court are properly executed. All matters relating to commencing and pursuing an action are in the hands of the registrar to whom letters are addressed, and whose office is open to the public for information and guidance.

Jurisdiction of County Court.

The County Court can deal with many matters, but for our purposes we will consider only its functions in relation to debt recovery. This court is the proper court for actions to recover debts amounting to £100. Indeed to bring an action in the High Court for a debt of less than this amount may mean the payment by the creditor of costs which might have been avoided in the County Court. If the parties are agreed, the court has the right to try issues of the kind under consideration even when they exceed £100, and of course the jurisdiction extends to cases where claims beyond this amount are made and the claimant admits a set-off which reduces his original claim to £100 or less.

CHAPTER II THE SUMMONS

PROCEDURE in the County Court is commenced by the claimant or plaintiff taking out a summons against the debtor or defendant. The summons must be taken out in the proper court, which is usually the County Court in the district in which the debtor or one of the debtors (if the debt is

due from more than one) resides or carries on business at the time of taking out the summons. Any deviation from this rule is made only with the consent of the judge or the registrar. Two exceptions are allowed, firstly with leave as mentioned the action may be commenced in the court having jurisdiction in the place where the defendant or one of the defendants dwelt or carried on business at any time within six months of the action being taken, and secondly with similar leave, the summons might be taken out in court in the district of which "the cause or claim" wholly or partly arose.

Deciding where Cause of Action Arose.

It may be that the residence of the defendant is not known at the time of taking action, and in such case it becomes necessary to decide where the cause of action arose.

If a trader supplies goods through the post—mail order—the offer is made in one place and the acceptance in another. The cause of action therefore arises partly in both places. In the case of a contract in writing as, for instance, a hire purchase agreement, the cause of action arises in the place where the agreement is signed. In the case of a contract for goods sold the cause may partly arise in various places as, for example, the place where the goods are ordered, the place where payment is to be made (that is, usually, at the seller's place of business), or the place at which the goods were delivered.

Forms of Summons.

Having found out which court is the proper court, the trader must then decide what form of summons should be taken out. There are two usual forms in the case of debt, with a third which may be used in actions on bills of exchange, promissory notes, and cheques.

The creditor should either present himself at the office of the registrar or write to the registrar, setting out his name and address, the debtor's name and address and the nature and amount of his claim. Two copies of the claim should be made out and a fee should accompany the letter. The appropriate fee is one shilling in the pound on the amount claimed and one shilling for service; if there are more than three joint debtors, an additional shilling per debtor over three included in the summons, provided the claim exceeds £2.

The Plaintiff Note.

When the registrar receives the fee he issues the summons and hands a receipt to the plaintiff. This receipt, called a *plaint note*, is important as it sets forth the date when the action will be heard, this date being known as the *return day*. In addition it must be produced at the time of the hearing and it is the claimant's title to money

which has been paid into court by the defendant and awarded to the plaintiff at the hearing.

Service of Ordinary Summons.

The summons so issued is generally served by an officer of the court unless the claim exceeds fifty pounds. It calls upon the debtor to pay the amount claimed together with costs, and it sets out the *return day* upon which he must appear in court if he desires to dispute the claim. It is not necessary to serve this summons, called an *ordinary summons*, on the defendant personally. It may be left at the residence or place of business of the debtor with any person there who seems to be at least 16 years of age.

An *ordinary summons* is the usual form, and proof of the debt by the plaintiff is not necessary before the issue of the summons. Where damages are claimed or the return of goods required or in any case where a definite, ascertained sum or as it is called "a liquidated money demand," is not in question, the proper procedure is by ordinary summons.

Default Summons.

Where the creditor is suing for the price of goods, his claim is for a "liquidated money demand," and the action may be commenced by means of a *default summons*. The first step is the same as in the case of an *ordinary summons*. Application is made to the registrar for the necessary forms for the taking out of a *default summons*. A form of affidavit, quite easy to understand, is included and this is filled up and sworn before the registrar of the court. This is the affidavit of the debt and it is filed with the registrar along with the claim. The default summons, which is issued when the forms are duly filled and filed and the appropriate fees paid, does not indicate a return day, but gives notice to the defendant that he will not be allowed to defend the claim unless he gives notice of his intention to do so within eight days after service. If the defendant elects to defend or disputes the claim he must signify his intention to do so within the time stipulated. This is called "entering an appearance," a technical term not actually connected with going into court but being the preliminary step to appearing in court to defend the action.

Service of Default Summons.

The default summons must be served personally on the debtor, and the plaintiff or his servant may effect the service. A debtor cannot always be found, and when it can be shown that his absence is due to his attempting to evade service, the plaintiff can obtain the assistance of the court and satisfy the law by substituted service. The plaintiff must file an affidavit showing that he or



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A VIEW OF FORT DUNLOP (BIRMINGHAM)

Dunlop Rubber Co., Ltd.

the strength of the case, and to give to the debtor the opportunity of seeing what he is said to owe and the origin of the debt. If he is not satisfied he may apply at any time not less than one week before the return day for "further and better particulars" or, in other words, a more complete and detailed statement of the claim against him.

Particulars of Claim.

IN THE X Y COUNTY COURT

John May,
Plaintiff.

James Gay,
Defendant.

19..			£	s.	d.
Jan. 8.	15 sq. yds. linoleum at 4s. per sq. yd.	.	3	—	—
" 8.	2 pairs Nottingham lace curtains at 15s.	.	1	10	—
" 12.	1 wooden bed in oak at £5 17s. 6d.	.	5	17	6
" 12.	1 mattress, 4 ft. 6 in. at £2 5s.	.	2	5	—

£12 12 6

Jan. 8.	By Cash	.	.	.	£2	-	-
" 12.	" "	.	.	.	3	-	-
						5	-
						£7	12 6

John May,
4 Ray street,
X Y.

CHAPTER III

If the action is to recover rent, particulars and dates should be set out as above, and the details in all cases should be precise. It is not sufficient to show in a claim an amount "To Account rendered," or "To goods supplied from 1st January to 30th July": detail can always be required.

Even in the issue of an ordinary summons an affidavit may be required when an application is made to sue in the court in a district in which the defendant does not reside. The registrar will consider the affidavit in such a case and if in his opinion the case should be heard in that court he will grant permission and issue the summons. Unless such leave is given the plaintiff must take out his summons in the defendant's court.

The form of affidavit sworn by a plaintiff in such a case is as follows—

I, John May, of 4 Ray Street, X Y in the County of Blankshire, Furniture Dealer, make oath and say as follows—

1. That James Gay of Sunrise Villa, Côte Farm, in the County of Wilts, is justly and truly indebted to me in the sum of £7 12s. 6d. for the price of goods sold and delivered.

2. That the cause of action in respect of which the proposed defendant is proposed to be sued arose wholly or in part at 4 Ray Street aforesaid in the County of Blankshire within the district of this Court.

3. That the facts relied on as constituting the alleged cause of action or a part thereof are that the order for the goods for the price of which an action is proposed to be brought was given at 4 Ray Street aforesaid within the district of this Court.

A clerk in the employ of the plaintiff may undertake the business of attending the court and in such a case an alteration would be made in the first paragraph and an additional paragraph would be included in the affidavit. This would take the following form.

4. And I further say that I am a person in the employ of the proposed plaintiff and that the facts herein deposed to are within my knowledge and that I am duly authorized by the proposed plaintiff to make this affidavit.

Claims against Manual Workers.

In the case of a retail trader taking out a summons against a working man, difficulty will often be put in his way should he attempt to commence his action elsewhere than in the defendant's court. In the case of a mail order trader this should be kept well in mind. There are at present rules governing the issue of a summons against a person engaged in manual labour, and under these leave to issue in the plaintiff's court will not be granted unless—

1. At the time of contracting the debt the defendant was living in the County Court District in which the summons was applied for; or

2. Either the defendant or his agent was personally present in the district and contracted the debt there; or

3. The court is satisfied that it will be as convenient to the defendant to try the action in the court proposed as in his own court; or

4. That the plaintiff gave notice to the defendant that he intended to apply for leave to sue him out of his own district and called upon the defendant to admit or deny the claim and that the defendant admitted the claim or failed to reply.

If the plaintiff is left to sue the defendant in his own court and this lies at some distance away, the plaintiff may fill in the necessary papers, obtain a post office order for the amount of the fees and forward, together with a stamped addressed envelope, to the registrar of the defendant's court. If the papers are in order, the summons will be issued together with the plaintiff note, which latter will be sent to the plaintiff in the directed envelope.

Fees.

Mention has already been made of the fees to be paid; these in the case to which the above statement of claim applies will be nine shillings, namely, one shilling in the pound on £7 12s. 6d. and one shilling for service. On payment of these fees the summons is issued and nothing remains but to prepare the case ready for the date of hearing mentioned in the plaintiff note. If the defendant resides more than twenty miles from the court where he is sued, he may compel the plaintiff to deposit in court security for his travelling expenses on showing by affidavit that he has a good defence. If the plaintiff fails to deposit security the action is struck out.

Proof of Debt.

If a default summons has been issued judgment can be signed in default of appearance, but in the case of an ordinary summons the plaintiff is required to prove his case. He is required to place complete evidence of the debt before the court. In the case we have considered, John May will be required to prove that James Gay ordered the furniture, the price of which is the subject-matter of the action. Then he must show that the goods actually came into Gay's possession. The evidence of the person delivering the goods is the best evidence available, and if this is forthcoming nothing more is needed until the date of the trial arrives. Where the proof of the contract depends upon documentary evidence it is well if the documents are in the plaintiff's hands, but it is possible to produce in evidence against a defendant documents which he is known to possess. In order to obtain the production of documents the plaintiff must serve a notice on the defendant in the following form—

Take notice, that you are hereby required to produce and show to the Court on the trial of this action, all books, papers, letters, copies of letters, and other writings and documents in your custody, possession or power, containing any entry, memorandum or minute, relating to the matters in question in this action, and particularly a letter from myself to you dated 10th March, 19..., together with the invoices sent to you on the 8th January and the 12th January, 19..., respectively.

Dated this 1st day of September, 19...

JOHN MAY.

To JAMES GAY.

The plaintiff should be in a position to give evidence that this notice has been served and it is well for him to serve it personally and before 6 o'clock in the evening. If the defendant ignores the notice a copy of such documents or some other method of proof may be admitted, but it is necessary to show that the best effort has been made to produce the original.

Subpoena.

Third parties can be called to give evidence or to produce documents, and for this purpose a

subpoena is necessary. This is obtained by making application for the necessary form and instructions at the registrar's office. This form is supplied free and it is quite easy to fill up. When completed it is handed to the clerk together with the fee of sixpence, and the subpoena in duplicate is issued. One copy is retained and the other served on the person whose attendance is required. Service depends on the custom of the court; in some districts the court for a small fee attends to this matter. Personal service is necessary and a sum of money sufficient to pay the travelling expenses of the witness must be tendered, or he is not compelled to attend. If any further proceedings are necessary before the trial as, for example, if documents are not forthcoming or any difficulty arises, the trader should at once resort to expert help.

CHAPTER IV

PROCEDURE AT THE TRIAL

DIRECTIONS are given to the plaintiff on the plaint note and care should be taken to follow these out. On the day of the trial the plaintiff proceeds to the court and pays the hearing fee, which is two shillings in the pound on the amount claimed. In the case we have considered the sum would be sixteen shillings as fractions of a pound count as a full pound. The receipt of the money is marked on the plaint note and the matter goes before the Registrar's Court. If the defendant does not appear or the claim is not disputed, in the case of an ordinary summons, the registrar makes an order for the amount claimed on the facts on which the claim is based being proved, and without further evidence in case of a default summons.

If the defendant writes to the court before the date of trial and admits the debt making an offer to pay on terms, the offer will be communicated to the plaintiff who should accept if it is in any way reasonable.

Proceedings before Registrar.

The observant business man soon picks up the procedure of the court by being alert before his own case is called. When the usher calls the case on the plaintiff enters the appropriate box and is sworn. The registrar then asks "Mr. John May, does Mr. James Gay owe you £7 12s. 6d.?" The plaintiff replies in the affirmative, and in the absence of the defendant the plaintiff is then asked how the defendant can pay. He then names a sum which he believes will be a monthly instalment within defendant's means. Of course, he can ask for prompt payment, but this is not always wise. The registrar then gives his decision, say "10s. a month" or "pay in 14 days."

Where the case is undefended, this order ends it, and the judge's court not having been troubled, a portion of the hearing fee is returned.

If the defendant puts in an appearance the procedure depends upon whether he admits or defends the claim. In the former case the registrar is able to question him as to his means and to decide accordingly, but in the latter case he must send the matter before the judge.

Before the Judge.

Before the judge the preliminaries are the same, but here the plaintiff must prove the claim. John Ray will go into the box and give evidence of taking May's orders in January for certain goods. If an assistant took the order he will be called to depose to the facts. Delivery will be proved by the person actually delivering. This is easy where the carter is Ray's employee, but if delivery is by carrier the signature of May on the delivery sheet will be sufficient unless it is disputed, when the actual vanman must be produced to give evidence. The defendant is afforded an opportunity to ask questions of plaintiff and his witnesses, after which he may call witnesses in defence.

The judge then gives judgment and an order will be made for payment of the debt and costs very much on the lines mentioned in dealing with the Registrar's Court. The claimant should ask for his witnesses' expenses, and these will be added to the other costs which defendant is called upon to make.

Generally an order is made for payment within a given time and in such case the plaintiff—or judgment creditor, as he now is—must wait. If the amount awarded be not paid it becomes necessary to press for payment, provided the creditor is satisfied that the debtor can pay.

Defence.

Although the average suit for debt in the County Court is undefended, it may happen that the debtor puts in a defence. The back of the summons gives full instructions on this matter. A person may not wait until he comes into court and then say "I am an infant" or "the debt is six years old, and not enforceable." The defendant is bound to give notice to plaintiff of the grounds of defence or in certain cases, mentioned in the memorandum on the summons, the notice must be given to the court. These cases are said to be *special defences*, namely, set-off, infancy, marriage in case of a woman, Statute of Limitations; bankruptcy, tender, statutory defence such as Statute of Frauds. The reader who has read the section on Contract (Section 22) will understand these defences. He will know how infancy operates and the effect of the passing of time, but he must now realize that his debtor can hide behind

any of these excuses or defences if he adopts the correct procedure, namely, to give five clear days' notice before the trial to the registrar of the special defence he intends to put in. In the case of a set-off being pleaded, in addition to the notice a statement of the particulars of the set-off must also be delivered. When the defence is tender of payment the defendant is not excused, and in

CHAPTER V

PROCEDURE AFTER TRIAL

WHERE money has been paid into court and judgment has been obtained by the plaintiff, he should examine his plaint note upon which he will find a statement showing the days on which money is paid out. He should present himself



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MAKING THE BRACINGS OF THE VOTEY PIANOS

The Aeolian Co., Ltd.

addition to giving the notice of special defence, he must pay into the court the amount tendered. The reader will already be possessed of knowledge as to the effect of tender, this matter having been dealt with in Section 22.

The back of the summons gives further particulars of interest to the defendant. It informs him that if he pays the debt and costs as claimed in the summons into the registrar's office, five clear days before the trial, further costs will be avoided. Where the debt or claim exceeds five pounds either party may require that the action be tried by a jury, and in order to obtain this privilege ten clear days' notice must be given.

at the paying out desk on one of the days and deliver up the notice which he has received informing him that money has been paid into court. He must also produce the plaint note. He will then be called upon to sign the court Cash Book, money will be handed to him, and the plaint note will be retained unless further instalments are payable, in which case the plaint note will be retained by the court after the last payment.

Enforcing a Judgment.

When money is not paid into court the plaintiff sometimes finds it necessary to enforce his

judgment, and he can do this by judgment summons, execution or garnishee order. By execution, which is the commonest method, the court seizes goods of the debtor sufficient in amount to produce, when sold, the amount of the judgment with costs. The method of levying execution is to attend at the registrar's office and obtain and fill up a form of "instructions for execution." This form, together with the appropriate fees, namely, one shilling and sixpence in the pound up to ten pounds, and one shilling in the pound for the excess over ten pounds, is handed to the clerk of the court. The payment of the fee is recorded on the plaint note and the levying of execution is left to the court. If the execution realizes the sum required, the plaintiff is informed and payment out takes place as described. Where payment is by instalments and execution is levied in respect of an instalment it is quite lawful to seize goods for the whole debt.

No goods can be seized unless they belong to the defendant, and there are always dangers such as rent in arrears, hire purchase agreements, and the like which make execution almost impossible.

The Judgment Summons.

The judgment summons is a summons calling upon the debtor to come before the court and to submit to an examination as to his means, and to show cause why he should not be committed to prison if he fails to pay. If the plaintiff wishes to obtain a judgment summons, he must do so

within four months of obtaining judgment, otherwise he will have to get special leave. In order to obtain summons the plaintiff attends at the registrar's office and fills in a form which is supplied to him. A small fee is payable and the plaintiff should tender to the defendant a sufficient sum for travelling expenses to the court. This so-called conduct money is paid in order that the defendant may be dealt with if he fails to attend. On the hearing of the summons the plaintiff tries to prove that the defendant can pay but will not. Before the hearing the plaintiff will have learned, if possible, something about the defendant's income and his mode of living, and he may issue a subpoena to call witnesses to enable him to prove his case.

The court can on proof of means order payment either in full or by instalments, or the defendant may be committed to prison in default of payment for a period not exceeding six weeks. If the payment is to be by instalments imprisonment cannot follow failure of an instalment.

Garnishee Proceedings.

In an ordinary case garnishee proceedings are not resorted to. They are used when the plaintiff has knowledge that a third party holds money which has become due to the defendant, and the proceedings are directed towards forbidding the third party to pay over to the defendant until the plaintiff has been satisfied. When such action is taken, and in all cases of difficulty, legal advice should be resorted to.

of to be void, the governing body of the proprietors may defeat the decree by lawfully resolving on the very acts which are the subject of this suit."

From this dicta arises the rule that "the majority are the only persons who can complain or condone." Acting on this rule, the Courts will not generally interfere "for the purpose of forcing companies to conduct their business according to the strictest rules when the irregularity complained of can be set right at any moment." (*Browne v. La Trinidad*, 1888, 37 Ch.D. 1.)

was questioned on account of the notice convening that meeting having been passed at a board meeting at which a quorum was not present, the Court declined to interfere.

The majority, of course, must not use their powers to practise fraud or oppression upon the minority nor are they entitled to do any illegal or *ultra vires* act. Any one shareholder, in such circumstances, may bring an action, on behalf of himself and the other shareholders, to restrain the company from doing such acts.



Photo

GENERAL VIEW OF ASSEMBLING ROOM
(Corfield, Ltd.)

Kealeys, Ltd.

The legal dicta enunciated in *MacDougal v. Gardiner*, 1875, 1 Ch.D. 21, was—

In my opinion, if the thing complained of is a thing which in substance the majority of the company are entitled to do, or if something has been done irregularly which the majority of the company are entitled to do regularly, or if something has been done illegally which the majority of the company are entitled to do legally, then there can be no use in having a litigation about it, the ultimate end of which is only that a meeting has to be called, and then ultimately the majority gets its wishes. It comes to this the majority are the only persons who can complain that a thing which they are entitled to do has been done irregularly.

Thus in *Southern Counties Deposit Bank v. Rider and Kirkwood*, 1895, 73 L.T. 374; where the validity of resolutions passed at a general meeting

What is a Meeting?

To constitute a meeting properly and validly it is essential (1) that all those persons who are entitled to be present should receive adequate notice of the date, time and place of meeting; (2) that it is convened by an authorized person; (3) that a quorum is present; and (4) that the wishes and decisions of the members or persons present are properly ascertained upon the questions submitted to them.

Strictly speaking, a meeting must consist of a gathering of two or more persons, and this has been confirmed in *Sharp v. Dawes*, 1877, 2 Q.B.D. 26, where it was laid down that "the word 'meeting,' *prima facie*, means a coming together of more

than one person. It is, of course, possible to show that the word 'meeting' has a meaning different to the ordinary meaning."

Usually, a different meaning can be imported only by agreement amongst the parties concerned or by authority of the appointment itself as, for instance, the appointment of one director to act as a committee. But in *East v. Bennett Bros.*, 1911, 1 Ch. 168, where it was desired to hold a separate meeting of one particular class of shareholders and the whole of the shares of that class were held by one person it was decided that, in such circumstances, the word "meeting" may be used as "including the case of one single shareholder."

General Rules and Methods of Procedure.

The by-laws or regulations governing the procedure at meetings should include provisions relating to—

1. The appointment of the chairman, his powers and duties.
2. Notices of meetings.
3. Quorum at meetings.
4. Proceedings at directors' or committee meetings.
5. Proceedings at shareholders' or general meetings.
6. Voting and use of proxies at meetings.
7. Adjournments.
8. Appointment of committees.

In addition, other regulations may deal with the agenda paper, conduct and order of debate, duties of secretary and other officials at meetings, etc. But in many instances, these matters are customarily left to the discretion of the chairman.

With certain items, however, although definite rules are not established, yet particular modes of procedure are commonly adopted. For example, a motion or resolution is customarily "proposed" and "seconded" before it is put to the meeting, but it is extremely rare for a company's articles to contain provision to this effect. Unless the articles specially require it, motions need not be seconded. In *re Horbury Bridge Coal, etc., Co.*, 1879, 11 Ch.D. 118, Lord Justice James stated—"In my opinion, if the chairman put the question without its having been either proposed or seconded by anybody, that would be perfectly good."

CHAPTER II

THE CHAIRMAN

THE person who acts as chairman of a meeting must be properly appointed; otherwise the whole of the proceedings thereat may be invalidated.

His Appointment.

The articles of association invariably contain provisions regarding the appointment of chairman. (See specimen articles—Sec. 47.)

Where the articles do not contain regulations the chairman must be appointed under Sec. 67 of the 1908 Act, which provides that—

In default of, and subject to any regulations in the articles . . . any person elected by the members present at a meeting may be chairman thereof.

As a general rule, only registered members of a company are entitled to attend general meetings and, therefore, members only are qualified for election as chairman.

Special articles, however, sometimes provide that non-members are entitled to attend (and vote) as proxies on behalf of absentee members. Further, Sec. 68 of the 1908 Act provides that "a company which is a member of another company may authorize any of its officials or any other person to act as its representative at any meeting of that other company. . . ." In such circumstances, a non-member may be validly appointed chairman, subject, of course, to the provisions of the articles.

Where a chairman is appointed otherwise than in accordance with the articles, the appointment is void, even and although all the members present acquiesced in the appointment. (*Clark v. Workman*, 1920, 1 Ir.R. 107.)

At meetings of debenture holders, the chairman is appointed in accordance with the terms of the debenture trust deed whilst at meetings of creditors the largest creditor is usually voted to the chair.

Tenure of Office.

The tenure of a chairman's office depends upon the terms and manner of his appointment; either as chairman of the board of directors or as chairman of the company. It may be for one meeting, for a fixed period or otherwise. When the appointment covers a definite period, it is more usual for a written contract to evidence the terms of appointment.

It was decided in *Foster v. Foster*, 1916 (1 Ch. 532), that where a chairman is appointed without any period being fixed he was not thereby entitled to retain that office for as long as he remained a director and that the directors have power—at their discretion—to substitute another director as chairman.

In every case, however, the appointment must be in accordance with the company's articles.

The Chairman's Authority.

When a number of persons meet together and appoint one of their number to take the chair and preside over their deliberations, the power and authority to regulate the conduct of the meeting devolves upon the chairman by common

agreement. The chairman has been said "to collect his authority from the meeting" and it follows, therefore, that the chairman must act fairly, impartially and reasonably in the interests of those who appointed him, paying particular attention to the rights of minorities.

The ideal chairman should possess discretion, tact, firmness blended with courtesy, abundant common sense and last, but not least, absolute impartiality.

A company's articles of association take effect as a binding contract between the members, hence where the articles contain express provisions relating to the conduct of meetings, their provisions must be strictly followed. But where the articles do not contain appropriate regulations the chairman must act in accordance with the authority delegated to him. In *Wandsworth Gas Co. v. Wright*, 1870, 22 L.T. 404, it was held that "the details of the proceedings must be regulated by the persons present, and by the chairman; if his decision is quarrelled with it must be regulated by a majority of those present. Of course, it must be presumed that they do it all honestly and fairly."

The Chairman's Duties.

Primarily, the chairman's duty is "to preserve order, and to take care that the proceedings are conducted in a proper manner and that the sense of the meeting is properly ascertained with regard to any question before it." (*National Dwellings Society v. Sykes*, 1894, 3 Ch. 159.)

Conduct of Debate.

All the members present have equal rights and the majority are not entitled to refuse to hear the arguments of the minority. But neither are the minority entitled to adopt obstructive methods and thus prevent the transaction of business. When the minority have had a reasonable opportunity to state their views, the chairman may accept a motion for the "closure" of the discussion and, if this motion is carried, put the main question to the vote.

Any incidental questions which may arise, e.g. disputes as to who shall address the meeting, the admissibility of resolutions or amendments and any other points of order—must be decided by the chairman in a fair and impartial manner with due consideration for the rights of the minority, the facilitation of business, and the necessity of obtaining decisions on the questions submitted to the meeting.

The chairman's decision on points of procedure must be respected and observed by the members present, but where the chairman's ruling is incorrect and wrong the aggrieved member has the right to initiate legal action to test the validity of the proceedings. In *Reg. v. D'Oyly*, 12 A. & E. 159, it was held that—

He (the chairman) is to do the acts necessary for these purposes (preservation of order, regulation of proceedings, etc.) on his own responsibility and subject to his being called upon to answer for his conduct if he has done anything improperly.

Moreover, if a chairman improperly refuses to put an amendment to the meeting the mover of that amendment does not lose his right to impeach the validity of the proceedings by his acquiescence in the chairman's ruling. (*Henderson v. Bank of Australasia*, 1890, 45 Ch.D. 330.)

Admissibility of Amendments.

The chairman, therefore, is in duty bound to put to the meeting all legitimate resolutions and amendments which come within the scope of the notice convening the meeting and are relevant to the subject-matter under discussion.

Occasionally, when doubts arise as to the validity of a proposed resolution or amendment, as to either relevancy or notice, the chairman is in a difficult position. He has to give an immediate decision as to their admissibility, and this decision may involve the validity of the ultimate resolution. Refusal—or even acceptance—may result in litigation; in the first instance on the ground that a material and relevant question was not put to the meeting and in the second instance because possibly the resolution or amendment is *ultra vires*.

In *Henderson v. Bank of Australia* (*supra*) where an amendment had been ruled "out of order," Lord Justice Cotton stated that—

The chairman was entirely wrong in refusing to put the amendment, and that the resolutions which were passed could not be allowed to stand, because the chairman, under a mistaken idea as to what the law was which ought to have regulated his conduct, prevented a material question from being put to the meeting.

Undoubtedly, where there is a practical certainty that the meeting will reject the amendment, the chairman's best procedure is to allow it to be put to the vote even and although he considers that probably it is *ultra vires*. The adoption of this method will safeguard the validity of the ultimate resolution if it is eventually shown that the amendment is relevant and in order.

Chairman's Power to Adjourn.

At common law, the chairman has no power to adjourn or close the meeting, except with the consent of the members present or when the business for which the meeting was convened is completed. Most "special" articles, however, give the chairman a discretionary power, and in *Salisbury Gold Mining Co. v. Halthorn*, 1897, A.C. 268, it was held that, under an article reading "the chairman may, with the consent of the members present at any meeting, adjourn the same from time to time, and place to place," the chairman has a discretion and he is not bound to adjourn even and although the majority so desires.

But Table A provides—

55. The chairman may, with the consent of any meeting, at which a quorum is present (*and shall if so directed by the meeting*) adjourn the meeting from time to time and place to place. . . .

Hence, where Table A applies, the words italicized preserve the supremacy of the members.

The chairman, moreover, is not entitled "to stop the meeting at his own will and pleasure." . . . Mr. Justice Chitty has laid down the dicta that "The meeting is called for the particular purposes of the company and, according to its

chairman has power to take all reasonable steps necessary for the maintenance of order. Where persistent disorder prevails and the meeting is out of hand and so much beyond his control as to prevent the transaction of business, the chairman should adjourn temporarily to enable complete order to be restored. Sometimes quite a short adjournment (say, for half-an-hour) will suffice.

The Chairman's Casting Vote.

Usually, the articles provide that, when an equality of votes is recorded, the chairman shall



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constitution, a certain officer has to preside with reference to the business which has to be transacted. . . . The meeting by itself can resolve to go on with the business for which it has been convened, and appoint a chairman to conduct the business which the other chairman, forgetful of his duty, or violating his duty, has tried to stop because the proceedings have taken a turn which he himself does not like." (*National Dwellings Society v. Sykes*, 1894, 3 Ch. 159.)

Disorder at Meetings.

The maxim, "When the law gives anything to anyone, it also gives all those things without which the thing itself would be unavailable" applies to chairmen of meetings and, therefore, a

have a second or casting vote. (*See Table A, clause 58.*) But in the absence of express provision to this effect, the chairman has no casting vote; at common law he does not possess this privilege.

When the chairman does not exercise his right to a casting vote (or does not possess it) and the voting is equal, the motion is deemed not carried.

The casting vote is, of course, in addition to the ordinary vote possessed by the chairman as member of the company, and this ordinary vote he may use as he pleases either at general meetings in his capacity as shareholder or at board meetings as a director. But some authorities consider that, in order to preserve his impartiality, he should not vote at all, except on an equality of votes

and, in that event, he should vote "against" the motion to prevent it being carried in the presence of so strong an adverse vote. Whilst this principle may be conceded as applicable to meetings in general it should be remembered that, usually, the chairman is appointed to his position by reason of his high qualifications and, therefore, at any rate, as far as business meetings are concerned, the chairman should use his votes according to his own judgment in the best interests of the company or other body whom he is serving.

CHAPTER III

QUORUM

It has been decided at common law with regard to meetings generally, that "Whenever a certain number [of persons] are incorporated, a major part may do any corporate act, so that if all be summoned and part appear, a major part of those that appear may do a corporate act, though nothing be mentioned in the charter of the major part." (*Attorney-General v. Davy*, 1745, 2 Atk. 212.)

Articles of association, however, invariably determine the minimum number of members that constitutes a quorum and this prescribed quorum must be present before the meeting can commence to discuss business. (See Table A, clauses 51 and 52.) Absence of a quorum invalidates a meeting; all the proceedings thereat are null and void. (*Cambrian Peat Co.*, 1875, 31 L.T. 773.) The quorum should, of course, be maintained throughout the meeting unless the articles specially provide for such a contingency.

Who may be Included ?

Where Table A applies three members personally present is requisite. Further, the person present must be validly present and entitled to vote. Usually, members whose calls are in arrear are disqualified (Table A, clause 63) and sometimes it is provided that persons who, at the date of the meeting, have only recently become members are not entitled to vote.

Proxies may not be included unless the articles contain appropriate provisions, such as the following clause—

Three persons present either in person or by proxy shall constitute a quorum for a general meeting for all purposes.

But a clause to this effect is, usually, adopted only where non-members are allowed to be appointed as proxies. Where a member attends a meeting on his own behalf and also as proxy for another member it appears that he must be counted as one person only.

The representative of a company appointed under Sec. 68 of the 1908 Act, however, may be

properly included in the quorum of members "personally present." (In *re Kelantan Coconut Estates, Ltd.*, 1920, W.N. 274.) Unless prohibited by the articles, directors (who are, of course, members of a company) may be reckoned and with private companies, where the directors are the sole shareholders, no other quorum is possible.

Constitution of Quorum.

Where the total number of members is less than the prescribed quorum, the presence of all the members would appear to constitute a valid meeting, provided that there are not less than two members, but in *East v. Bennett Bros.* (*supra*) where all the shares of one class were held by one person it was held that, in the special circumstances, the presence of that one person satisfied the requirement.

But if the articles contain no regulations, the physical presence of two members is required. One person "cannot meet himself or form a meeting in the ordinary sense." (*East v. Bennett Bros.* (*supra*).) In *Sharp v. Dawes*, 1877, 2 Q.B.D. 26, where a general meeting had been convened, only one shareholder (who, however, held proxies of other shareholders) attended. He took the chair, proposed and passed the resolutions, but it was held that there was no meeting of the company, and the proceedings were invalid. In the judgment, the following passage occurs—

It is clear that, according to the ordinary usage of the English language, a meeting could no more be constituted by one person than a meeting could have been constituted if no shareholder at all had attended.

Adjournment in Absence of Quorum.

Sometimes it is difficult to obtain a quorum at company meetings, but this contingency is usually provided for in the articles by a clause stipulating that if the prescribed number is not present by a certain time the meeting stands adjourned for a specified period, and if at the adjourned meeting the prescribed quorum is not present, then the members present shall form a quorum. (See Table A, clause 52.)

Quorum at Directors' Meetings.

The articles usually prescribe the number of directors required to constitute a quorum. But where Table A applies, it may be fixed by the directors themselves and "unless so fixed it shall (when the number of directors exceeds three) be three."

Sometimes the articles provide for a minimum number of directors, and if the total number—either through death or resignation, etc.—falls below that minimum the survivors cannot act as a board even and although they are sufficient to form a quorum. For example, where the articles state that "the number of directors shall not be less than four" but there are only three directors,

all business transacted by those directors at board meetings is invalid, although, in fact, three directors are appointed and three are a quorum. (*Sly, Spink & Co.*, 1911, 1 Ch. 430.) But articles commonly provide that when the number of directors falls below the prescribed minimum the survivors

may act for the purpose of increasing the number of directors to that number or of summoning a general meeting of the company, but for no other purpose. (Table A, clause 89.)

“Interested” Directors.

Articles usually provide that directors may contract with the company but must not vote thereon; hence such “interested” directors must not be counted in the quorum. (*In re Grey-mouth Point Co.*, 1904, 1 Ch. 32.) But such directors may attend and vote as shareholders at general meetings on those contracts. (*North-West Transportation Co. v. Beatty*, 1887, 12 A.C. 589.) It would appear, therefore, that the director may be included in the quorum at general meetings under such circumstances.

Absence of Regulations.

In the absence of specific regulations, a majority of the directors must be present at board meetings to constitute a valid quorum. (*York Tramways Co. v. Willows*, 1882, 8 Q.B.D. 685.) But it has also been held that the number who usually act in the conduct of the company's business will form a valid quorum. (*Tavistock Ironworks Co., Lyster's case*, 1867, and *Bank of Syria*, 1901, 1 Ch. 115.)

CHAPTER IV

NOTICES OF MEETING

THE articles of association must be consulted to ascertain the regulations as to the scope, manner of service and despatch of notices of meeting, and the meeting must be convened by the proper authority. Further, the notice must contain adequate information of the business to be transacted. (See Table A, clauses 110 to 114.)

General Meetings.

In *Baillie v. Oriental Telephone Co.*, 1915, following *Smyth v. Darley*, 1849, it was decided that—

A company is not corporately assembled so as to be able to transact any business unless the meeting is convened by a proper notice which gives every member the opportunity of being present and complies with the articles as to stating the objects for which the meeting is held.

The proper authority to convene a general meeting is the board of directors acting at a valid board meeting but an extraordinary general meeting may be convened (if the directors default) by certain shareholders acting as requisitionists

under the authority of Sec. 66 of the 1908 Act. Table A (clause 48) also empowers any director or any two members of the company to convene an extraordinary general meeting if there are not sufficient directors within the United Kingdom capable of acting to form a quorum at board meetings. Special articles invariably contain similar provisions, but in the absence of regulations any five members may convene a meeting of the company. (Sec. 67 of the 1908 Act.)

WHO ISSUES THE NOTICES? Generally, the notices are prepared and issued by the secretary acting under the director's instructions and, accordingly, the secretary should see that the board meeting (at which it is decided to call the general meeting) is itself validly convened, and that a quorum of directors is present. Notices issued by the secretary without the directors' authority are invalid, but where an irregularly constituted board authorized a meeting of the company to be convened it was held that the resolutions passed at the general meeting were not invalid. (*Boschoek Proprietary Co. v. Fuke*, 1906, 1 Ch. 148; see also Sec. 74 of the 1908 Act which provides for the validity of directors' acts.)

Moreover, an unauthorized notice becomes good and valid if adopted and ratified at a board meeting held prior to the general meeting. “The principle is that the ratification of an act purporting to be done by an agent on your behalf dates back to the performance of the act.” (*Hooper v. Kerr, Stuart & Co.*, 83 L.T. 730.)

Issue and Service of the Notice.

Prima facie, every member of the company is entitled to receive notice of general meetings and to be informed of the precise purpose and objects of the meeting. The omission to serve notice even to one member may render the meeting irregular and invalidate the proceedings. (*Smyth v. Darley*, 1849, 2 H.L.C. 789.)

But Table A, clause 49, provides that—

The non-receipt of the notice by any member shall not invalidate the proceedings at any general meeting.

Special articles usually extend this provision by stipulating that—

The accidental omission to give any such notice to any of the members shall not invalidate any resolution passed at any such meeting.

Moreover, the articles may exclude certain classes of shareholders, e.g. preference shareholders, shareholders whose calls are in arrear, those resident abroad, etc., from the right to receive notices or to attend meetings.

With joint holders, it is usually provided that only the holder who is named first in the register is entitled to receive notice.

Except where the articles otherwise provide, representatives of deceased members are not entitled to receive notices until they are themselves

registered as members. (*Allen v. Gold Reefs of West Africa*, 1900, 1 Ch. 656; see also Table A, clauses 23 and 114.)

Where share warrants to bearer have been issued, the company's articles (or regulations made under authority of the articles) usually provide for notices to the holders being given by advertisement and by posting up the notice at the company's registered office. Notices to holders of bearer debentures also are customarily given in the same manner. Registered debenture holders, however, are entitled to service by post in the ordinary manner, but either the debenture itself or the trust deed should contain suitable provisions on this point.

With regard to shareholders who reside abroad it was decided in *re Union Hill Silver Co.*, 1870, 22 L.T. 400 that—

the Act has reference only to shareholders who can be reached by the ordinary English post and that, in fact, it was not necessary to serve [notices on] these absent shareholders.

But where the articles contain provisions relating to such shareholders, e.g. giving of notice by advertisement or allowing the shareholder to appoint an agent in England to receive the notices, the company must comply with its own regulations.

Method of Service.

Articles commonly provide that a notice may be given to any member "either personally or by sending it by post to him to his registered address." Personal service is effected only by handing the notice personally to the member; delivering the notice to an employee or servant of the member or placing the notice in his letter box is ineffective.

Service by post is deemed to be effected—

by properly addressing, prepaying and posting a letter containing the notice and unless the contrary is proved to have been effected at the time at which the letter would be delivered in the ordinary course of post. (See Table A, clause 110; j; also Sec. 26 of the Interpretation Act, 1889.)

Special articles, however, sometimes stipulate that the day of posting shall be deemed to be the day of service.

Length of Notice.

Sec. 67 of the 1908 Act enacts that in default of, and subject to, any regulations in the articles, seven days' notice shall be given. More usually, the articles contain provisions and where "seven days' notice," without any qualification, is required it means "seven clear days." (*Railway Sleepers Co.*, 1885, 29 Ch. 204.)

In that event, neither the day of service nor the day on which the meeting is to be held, can be counted in the seven days. Thus, if the meeting is to be held on the 30th of the month, the notices must be posted not later than the 21st.

Where Table A, clause 49 applies, the day of

meeting may be counted in the seven days but not the day of service.

Contents of the Notice.

Primarily, a meeting has no power to pass any resolution outside the scope of the notice convening the meeting; hence it is important that the nature of the business to be transacted is adequately disclosed. The decision of the majority binds both dissentient and absentee shareholders so that the notice must disclose all the information necessary to enable a shareholder to decide whether he ought to attend the meeting or not.

It is material to know (1) whether the meeting is "ordinary" or "extraordinary," (2) whether the business is "special" and (3) whether the resolution contemplated is a special resolution (i.e. one requiring a three-fourths majority and confirmation at a subsequent meeting), an extraordinary resolution requiring a three-fourths majority, or an ordinary resolution, the latter needing only a simple majority. Moreover, the regulations in the articles must be considered.

Ordinary Business.

Ordinary or "general" business is usually defined by the articles and, as a rule, consists of the consideration and adoption of the directors' report and accounts, the election or re-election of directors, declaration of dividends and the election or re-election of the auditors. All other business is deemed "special" business; see Table A, clauses 49 and 50.

Special Business.

"Special" business may be transacted (if the notice so provides) at an ordinary meeting unless the articles confine it to extraordinary meetings, but the notice must disclose adequate particulars.

Sufficiency of Notice.

In *Normandy v. Ind Coope & Co.*, 1908, 1 Ch. 84, it was decided that the sufficiency of notice must be determined by the special circumstances of each case, hence it is not possible to lay down precise, definite rules. "The Court does not scrutinize these notices with a view to exercise criticism, or to find out defects, but it looks at them fairly." (*Henderson v. Bank of Australasia*.) The notice, however, must "give a fair, candid and reasonable explanation" of the business for which the meeting is convened and where the directors are pecuniarily interested in the matter that interest also must be adequately disclosed. (*Kaye v. Croydon Tramways*, 1898, 1 Ch. 538.)

For example, a notice of a meeting was given for the purpose of altering the company's articles, but the nature of the alterations (which included increased remuneration and borrowing powers of the directors and other important changes) was not indicated; it was held that the notice

was insufficient. (*Normandy v. Ind Coope & Co. supra*).

Usually, the notice itself states the whole of the proposed business, but it has been held that a notice and directors' report, *which accompanied the notice*, may be read together. (*Boschoek Co. v. Fuke, supra*). But in *Baillie v. Oriental Telephone Co., 1915 (supra)*, where an explanatory circular accompanied the notice it was decided that the two documents, even when read together,

the resolution is submitted "for passing with or without modifications."

Notices of Board Meetings.

Usually, the articles provide that the directors shall control their meetings as "they think fit," and if they make any regulations regarding notice such regulations must be observed. Where the directors decide to hold meetings at regular intervals at some fixed hour and place, e.g.



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were insufficient as the real nature of the directors' proposals was not fully disclosed.

Occasionally, difficulties arise with amendments, on the question of notice. Provided that the amendment is within the scope of the notice it will be in order. For example, a notice contained a resolution proposing that the directors' remuneration should be 40 per cent of certain profits. This was amended so as to read 30 per cent, and it was held that the alteration was valid. (*Torbuck v. Lord Westbury, 1902, 2 Ch. 871.*)

With "special" business it is advisable that the exact wording of the proposed resolution be set out in the notice and where the subject matter admits of possible amendments, to intimate that

weekly meetings on Wednesday at 12 noon at the company's offices, notice is not strictly necessary, but the customary practice is to issue a formal notice stating the bare outline "General Business" as the agenda.

In the absence of regulations, reasonable notice to all the directors must be given. Omission to notify a director of a board meeting will render business transacted by the remaining directors at that meeting invalid. (*Portuguese Copper Mines, Steele's case, 1889, 42 Ch.D. 160.*) But where the director is abroad, notice need not be given (*Halifax Sugar Co., 1890, 62 L.T. 563*), nor is it necessary that the notice should state what business is to be transacted unless the articles or the

directors' own regulations so require. Where, however, a special board meeting is convened for special purposes, it is advisable that the nature of the business be specified in the notice.

CHAPTER V RESOLUTIONS

A RESOLUTION is the formal declaration embodying and recording decisions by directors and/or shareholders. Whilst all directors' resolutions are ordinary and need only a simple majority, shareholders' resolutions may be ordinary, extraordinary or special.

Shareholders' resolutions more usually relate to ordinary or general business, such as the adoption of the directors' report and accounts, sanction of dividend, election of directors or auditors, etc. With certain classes of business, however, the Companies Acts provide that the sanction of an extraordinary or special resolution is required. These resolutions are defined by the 1908 Act as follows—

Sect. 69.—(1) A resolution shall be an extraordinary resolution when it has been passed by a majority of not less than three-fourths of such members entitled to vote as are present in person or by proxy (where proxies are allowed) at a general meeting of which notice specifying the intention to propose the resolution as an extraordinary resolution has been duly given.

(2) A resolution shall be a special resolution when it has been—

(a) Passed in manner required for the passing of an extraordinary resolution; and

(b) Confirmed by a majority of such members entitled to vote as are present in person or by proxy (where proxies are allowed) at a subsequent general meeting, of which notice has been duly given, and held after an interval of not less than fourteen days, nor more than one month, from the date of the first meeting.

For all kinds of resolutions, the meetings must be convened in accordance with the articles. An extraordinary resolution, however, needs only one meeting with a three-fourths majority, but a special resolution requires two meetings with a three-fourths majority at the first meeting and a bare majority at the second. Printed copies of extraordinary and special resolutions must be filed with the Registrar of Companies; the former within fifteen days of its being passed and the latter within fifteen days of its confirmation.

Extraordinary Resolutions.

These are required, *inter alia*, by the 1908 Act to effect the voluntary winding-up of insolvent companies, the resolution declaring that the company cannot by reason of its liabilities continue its business (see Sec. 182, s.s. 3), and may be used to sanction certain other business connected with voluntary winding-up. (See sec. 190, 191 and 214.) The articles also specify the business which may be effected by extraordinary resolution.

For example, Table A, clause 41, allows an increase of capital to be authorized in this manner.

Usually, the notice convening the meeting is given in the following or some similar form.

NOTICE is hereby given that an Extraordinary General Meeting of the company will be held at _____ on _____ day the ____th day of _____, 19____, at ____ o'clock in the _____ noon for the purpose of considering and, if thought fit, of passing, with or without modifications, the following extraordinary resolutions.

Provided that all the shareholders are present at the meeting and all give their assent, it appears they may waive their rights to the statutory requirements as to notice. (*Oxley Motor Co.*, 1921, 37 T.L.R. 737.)

Special Resolutions.

The general practice is for the notice convening the first meeting to specify that the resolution will be submitted to specify that the resolution and that, if passed, it will be submitted for confirmation as a special resolution at a further extraordinary general meeting to be subsequently convened. But the 1908 Act provides that the "resolution must be passed in manner required for the passing of an extraordinary resolution," and in *Penarth Pontoon Co.* it was held that this statutory requirement does not necessitate the notice stating that "the resolution is to be proposed as an extraordinary resolution." The notice, however, should state that the resolution proposed will be a special resolution.

Sometimes the articles provide that the two meetings may be convened on the one notice, and in such cases the following form may be used—

NOTICE is hereby given that an Extraordinary General Meeting of the company will be held at _____ on _____ day, the ____th day of _____, 19____, at ____ o'clock in the _____ noon for the purpose of considering and, if thought fit, of passing, with or without modifications the following resolution—

That, etc., etc. . . .

AND NOTICE is hereby also given that an Extraordinary General Meeting will be held at _____ for the purpose of receiving a report of the proceedings at the above-mentioned meeting and of confirming, if thought fit, the above-mentioned resolution as a special resolution.

Even where the articles are silent, it appears that the two meetings may be convened on the one notice provided that a definite and positive notice of the second meeting is given. (*Espuela Land Co.*, 1900, W.N. 139.)

But a conditional notice (e.g. "if the resolution is passed, a confirmatory meeting will be held on the . . . th day of . . .") is not sufficient except where the articles specially provide for this form of notice.

At the first meeting, the resolution may be amended provided that the proposed amendment is within the scope of the notice convening the meeting, and that it is passed by the requisite majority. (*Torbuck v. Lord Westbury*, 1902.)

At the confirmatory meeting, however, the resolution must be confirmed in exactly the same form as passed at the first meeting; no amendments can be moved or put. (*Wall v. London & Northern Assets Corporation*, 1898.)

Interval Between the Two Meetings.

The interval of time between the two meetings required for a special resolution "must not be less than fourteen days nor more than one calendar month" (Sec. 69). In *Railway Sleepers Co.*, 1885, 29 Ch.D. 204, it was held that "an interval of time not less than fourteen days is equivalent to saying that fourteen days must intervene or elapse between the two dates." Accordingly, if the first meeting is held on the 1st of the month, the earliest possible day for the confirmatory meeting is the 16th of the same month whilst the latest possible day is the 2nd of the following month.

When Required.

Special resolutions are of frequent occurrence in company practice. For example, they are required, *inter alia*, for

- (a) Change of company's name. (Sec. 8.)
- (b) Alterations in the articles. (Sec. 13.)
- (c) Alterations of objects clause in memorandum. (Sec. 9.)
- (d) Reduction of capital. (Sec. 46.)

Other circumstances in which they are needed are enumerated in Secs. 40, 41, 45, 46, 59, 61, 110, 129, 182, and 191 of the 1908 Act.

In addition, the articles may stipulate that, in certain instances, a special resolution is required.

Amendments.

As a general rule, any resolution may be amended, excepting a special resolution at the confirmatory meeting.

But company meetings are convened for the transaction of definite business and amendments must not be negative in form as the same result could be obtained by voting against the resolution. Similarly, amendments of a dilatory or obstructive nature, such as the "previous question," "next business," etc., are out of order.

On the motion "that the directors' report and accounts be adopted" it is sometimes desired to move amendments to the effect that they be "received but not adopted" or that "a committee of shareholders be appointed to investigate the company's position."

The first amendment is out of order as the same object may be attained by rejection of the original resolution. Sec. 110 of the 1908 Act requires a special resolution to appoint "inspectors to investigate the company's affairs," hence where shareholders are dissatisfied the more correct procedure is to vote against and reject the motion

for the adoption of the accounts. A resolution should then be proposed instructing the directors to convene extraordinary general meetings for the purpose of appointing (under the provision of Sec. 110) a committee of inspection. Alternatively, the dissatisfied shareholders may, under Sec. 66 of the 1908 Act, requisition extraordinary meetings for this purpose.

Occasionally, however, the directors agree to the appointment of "a committee of shareholders to confer with the directors upon the company's position," and the meeting is adjourned to enable the committee to confer and report. But a committee appointed in this informal manner does not possess the express powers of investigation conferred by Sec. 110.

Amendments must not go beyond the business stated in the notice convening the meeting. This phase of the subject is discussed under the heading "Notices of Meeting" in Chapter IV.

CHAPTER VI

VOTING

DECISIONS at company meetings are ordinarily obtained (1) by show of hands, and (2) by means of a poll. The articles invariably contain regulations governing the procedure. Table A, clause 60, provides that on a show of hands every member shall have one vote but on a poll "one vote for each share of which he is the holder." In the absence of any regulations in the articles, Sec. 67 (s.s. 4) provides that "Every member shall have one vote."

The Right to Vote.

More usually, the privilege of attendance and voting at meetings is restricted entirely to members, but a statutory exception is the person appointed by a company to act as its representative at meetings of another company. (Sec. 68 of the 1908 Act.)

Primâ facie, every shareholder whose name is on the register of members is entitled to vote, but articles commonly provide that where the shareholder is in arrear with calls, the right to vote is lost. Special articles often debar certain classes of shareholders from attendance and voting except when their rights are affected or their dividends in arrear.

Occasionally, articles provide that a member must have held his shares continuously for a specified period prior to the meeting before he acquires his right to vote.

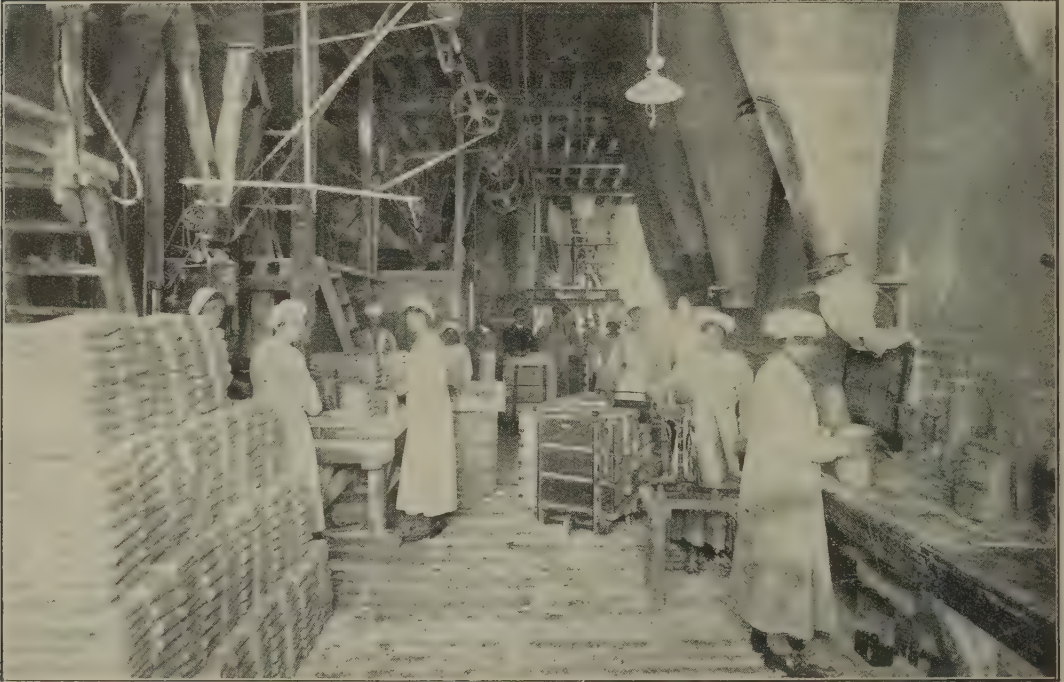
Where shares are held jointly, the first named holder usually has the sole right to vote, but it was decided in *Burns and Hambro v. Siemens Bros.*, 1919, 1 Ch. 225, that joint holders ought at all times to be able to exercise their joint rights

as members and, accordingly, where the articles provided that the first named of joint holders only could vote, they were entitled to have their holding split into two joint holdings with the order of the names reversed.

Holders of share warrants to bearer are required to produce and lodge the warrants with the company for a stated time in order to obtain a voucher of admission to the meeting.

Proxies.

At common law, there is no inherent right to vote by proxy, hence this power can only be exercised when it is conferred by the articles. Table A limits the right to act as proxy to persons entitled to attend and vote on their own behalf (i.e. members) unless the person is acting as proxy for a corporation.



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Kealeys, Ltd.

FLOUR PACKING ROOM
(Messrs. Osborne & Young, Ltd.)

Representatives appointed (under lunacy orders) to act for members of unsound mind are entitled, under Table A, clause 62, to attend and vote, but the legal representatives of deceased shareholders may not do so (clause 23) unless they are personally registered as members. Special articles, however, sometimes authorize legal representatives to attend and vote as if they "were the registered holder of such shares."

To ensure that qualified members only are admitted to the meeting some companies issue admission cards which must be signed and surrendered on entering the room. Alternatively, members may be required to sign their names on admission.

The term "proxy" is commonly used to denote both the person appointed to act for another and also the instrument by which he is appointed.

Stamp Duties on Proxies.

The form of proxy given in Table A (clause 67) is available only for one meeting (and any adjournment thereof). It requires a penny stamp (impressed or adhesive), which must be affixed before execution. Where a proxy is expressed to be available at more than one meeting (e.g. "at any general meeting to be held during the year 1924") it must bear a ten shilling impressed stamp.

If the proxy form is executed abroad the stamp

duty must be affixed within thirty days of its arrival in England.

Blank Proxies.

Provided that the proxy form is correctly stamped when executed, the name of the proxy or the date of the meeting may be subsequently filled in by any person duly authorized. But the completed form must be lodged at the company's registered office within the time specified by the articles.

Proxies at Adjournments.

Where Table A (or similar regulations) apply only those proxies lodged prior to the original meeting are available at the adjourned meeting. The interval between the two meetings cannot be used for the deposit of fresh proxies unless the articles provide that a proxy

shall be deposited forty-eight hours before the time for holding the meeting whether such meeting be an original or an adjourned meeting.

Issue of Proxy Forms.

Provided that the directors are acting *bonâ fide* in the interests of the company, the company's own funds may be utilized in issuing, stamping and obtaining proxies in their own favour. (*Peel v. London and North Western Railway Co.*, 1907.)

Method of Voting.

In the first instance, voting is taken by a show of hands on the principle of "one man, one vote."

A member appointed as proxy for another is not thereby entitled to a second vote on a show of hands, but if the articles allow non-members to be appointed the person acting as proxy has one vote.

Declaration of Result.

Usually, the articles provide that, unless a poll is demanded, the chairman's declaration of the result, accompanied by an entry to that effect in the company's minute book shall be conclusive evidence of the fact without proof of the number of votes recorded in favour of, or against the resolution. Similar statutory regulations apply to extraordinary and special resolutions. (Sec. 69, s.s. 3 of the 1908 Act.)

Any such declaration, however, is not conclusive if fraud or obvious mistake is proved as, for example, when the declaration on the face of it, shows that the statutory majority has not voted for the resolution. (In *re Caratal (New) Mines*, 1902, 2 Ch. 498.)

Absence of a quorum nullifies the chairman's declaration since, legally, there is no meeting.

Voting by Poll.

Unless the articles expressly prohibit this method of voting, members have the right, at

common law, to demand a poll but the articles commonly provide that such a demand must be supported by a specified number of qualified persons. Table A requires three members. (Clause 56.)

For extraordinary and special resolutions, Sec. 69 of the 1908 Act provides that three members qualified to vote may demand a poll unless the articles specify some other number not exceeding five members.

The poll should be demanded immediately after the declaration of the result on a show of hands. (It may be demanded before the declaration.) Sometimes the articles expressly stipulate the manner in which the poll is to be taken but, more usually, it is left to the chairman's discretion. For example, Table A, clause 59, provides that a poll on the election of chairman or on a question of adjournment must be taken forthwith, but on any other question at such time and place as the chairman directs.

How the Poll is Taken.

Usually, members or their proxies must attend personally at the time and place named. A voting paper is supplied which members must sign, inserting the number of votes "for" or "against" the resolution.

In some instances, the articles require the appointment of scrutineers to examine the voting papers and report the result. Even where no provision exists, they may be appointed either by the meeting or the chairman. When scrutineers are not appointed, the duty of determining the validity of votes tendered falls upon the chairman, assisted by the secretarial staff.

Where suitable provisions are contained in the articles voting papers may be sent to the members to be returned by post. But this method must be expressly authorized; it cannot be adopted under Table A or similar articles. (*Macmillan v. Le Roi Mining Co.*, 1906, 1 Ch. 331.)

The voting papers may be in the following or some similar form.

Member's Signature.	Reg. of Members. Fol.	Voting as Proxy for	Proxy No.	No. of Shares.	Votes:		Re- marks
					For.	Against.	

After the poll is closed, the voting papers are examined, the valid votes totalled and the chairman declares the result.

Where several resolutions are voted upon they should be put separately, although they may be all included on one voting paper with separate spaces against each resolution for the members to record their decisions.

CHAPTER VII

PRIVILEGE IN SPEECHES

ABSOLUTE privilege applies only to statements made in Parliament, or in the course of judicial or other state proceedings; qualified privilege exists when statements are made on privileged occasions.

Privileged Communications.

All shareholders have a common interest in the affairs of a company, hence the doctrine of "privileged communications" applies to the statements made and reports circulated at company meetings, but the privilege is qualified and not absolute. The speaker must make the statements *bonâ fide*, honestly believing them to be true, in the pursuance of some duty to his hearers, and the latter must have a right to hear the statements. Further, there must be no trace of maliciousness on the part of the speaker and no undue publication.

What is Privilege?

The question of privilege is a very difficult one; it depends very largely upon the precise facts and circumstances of each case, but the following extract from the judgment in *Allan v. Clarke*, 1912, may usefully be quoted—

There were certain relations of life in which the law regarded it as important that people should speak honestly without fear of legal action. Directors of a company had a duty to discuss the affairs of their company and might discuss the conduct of the company's officials so long as they did so honestly. That was a privileged occasion. If, however, a director did not use but abused the occasion by showing malice or spite, the privilege was gone.—*The Times*, 17th January, 1912.

It seems that where third parties (e.g. reporters) are present in accordance with usual custom the privilege is not necessarily thereby lost, but if such parties are present by express invitation the right of privilege is destroyed (*Pittard v. Oliver*, 1891, 1 Q.B. 474). Moreover, if a report is sent to the public press or circulated to the world at large and such report contains defamatory statements, the doctrine of privilege is not available as a defence either to the persons who issued the report or to the newspapers publishing it.

CHAPTER VIII

ADJOURNMENTS

AN adjournment usually refers to the postponement or deferment of further proceedings at a meeting to a future specified date, but it may be for a short interval only or *sine die* (indefinitely, without a date fixed), or again the adjournment may be of the debate on a particular subject.

Notices of Adjourned Meetings.

From a legal viewpoint, an adjourned meeting is a continuation of the first meeting (*Scadding v. Lovant*, 1851, 3 H.L.C. 418) and, therefore, it is not necessary to issue fresh notices unless the articles so provide. Table A, clause 55, provides that when a meeting is adjourned for ten days or more, notice of the adjourned meeting shall be given as in the case of an original meeting.

Business at Adjourned Meetings.

Moreover, only that business which was unfinished at the original meeting can be transacted. Hence, in order validly to transact other business (i.e. business which is not within the scope of the notice convening the original meeting) a separate meeting should be convened to be held immediately after the adjourned meeting is concluded. An exception to this rule arises in connection with the Statutory Meeting, and this is separately dealt with in Chapter IX.

The articles invariably contain provisions relating to adjournments (see Table A, clause 55), and the chairman's power to adjourn is discussed in Chapter II.

Absence of Quorum.

If a quorum is not present at the commencement of the proceedings the articles customarily provide for the adjournment for one week at the same time and place, when the members present will form a quorum. But where a general meeting is convened on a member's requisition and a quorum is not formed, the regulations usually stipulate that the meeting is dissolved. (See Table A, clause 52.)

CHAPTER IX

SHAREHOLDERS' MEETINGS

THE various meetings of shareholders will now receive attention.

Statutory Meeting.

This meeting, which must be held not less than one month or more than three months from the date at which the company is entitled to commence business, is usually the first general meeting of the company. Prior to this meeting the Statutory Report, containing summarized information relating to the formation of the company and its capital receipts and expenditure, must be forwarded to every member of the company. (Sec. 65 of the 1908 Act.)

The provisions of the company's articles with regard to notice and conduct of the meeting will apply to the statutory meeting, but the 1908 Act further provides that any matter relating to the formation of the company, or arising out of the

Statutory Report may be discussed whether previous notice has been given or not. No resolution, however, can be passed for which the articles require notice to be given. But the meeting has power to adjourn and in the interval, notice may be given of resolutions to be considered at the adjourned meeting. (Sec. 65, s.s. 7 and 8.)

This power to transact "new business" at adjourned meetings is an exception to the ordinary

and other officers and fixing of the auditors' remuneration. Any other business is deemed special.

Except where the articles confine special business to extraordinary general meetings, it may be transacted at the ordinary general meeting provided that the notice convening the meeting adequately discloses its general nature.

Any additional general meeting held by the



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rule which provides that only business left unfinished at the original meeting may be transacted at the adjourned meeting.

Ordinary General Meeting.

Sec. 64 of the 1908 Act provides that a general meeting shall be held once in every calendar year and not more than fifteen months from the last preceding general meeting.

This meeting is sometimes termed the "annual general meeting," and the business transacted thereat may consist of both ordinary and special business. Ordinary business is usually defined as the sanctioning of a dividend; consideration of the directors' report and accounts and the auditors' report; election of directors, auditors

company is known as an "extra"-ordinary general meeting. Such meetings may be convened (1) by the directors, acting on their own authority in accordance with the articles; (2) by the directors, on the requisition of members; and (3) by the members, if the directors do not convene. More usually, these meetings are convened for the transaction of special business involving the passing of extraordinary or special resolutions. Ordinary business, however, may be transacted thereat when circumstances necessitate.

Class Meetings.

The capital of large companies is often divided into different classes, some of which have preferential rights and privileges. When any

modification or variation of these rights is proposed, it is necessary to obtain the consent of such shareholders and, accordingly, to convene a special class meeting. If the preference or special privileges attached to the shares are defined by the memorandum of association it is necessary to obtain

a resolution passed by a majority in number of shareholders of that class holding three-fourths of the share capital of that class and confirmed at a meeting of shareholders of that class in the same manner as a special resolution is required to be confirmed. . . . (Sec. 45 of the 1908 Act.)

Any such resolution must subsequently be confirmed by the Court.

The modern practice, however, is merely to state the amount of the company's capital and its division into shares in the memorandum whilst the respective rights and privileges of the different classes are defined in the articles. In such cases, the class rights and privileges may be varied by special resolution or, if the articles so authorize, by extraordinary resolution.

Requisitioned Meetings.

Sec. 66 of the 1908 Act provides that—

The holders of not less than one-tenth of the issued share capital of the company upon which all calls or other sums then due have been paid

may requisition an extraordinary general meeting of the company and the directors are required to convene the meeting. No penalty, however, attaches to the directors for non-compliance with this section, but the requisitionists are authorized, if the directors default, to themselves convene the meeting.

Debenture Holders' Meetings.

As a general rule, meetings of debenture holders are held only (1) when the company has defaulted in payment of interest or repayment of principal, (2) when the security is imperilled, or (3) when the company desires to vary the conditions of the debentures.

The conditions upon which the debentures are issued are usually endorsed on the bonds themselves. Alternatively, they will appear in the debenture trust deed, where the issue is secured in that manner. In the latter case, the trustees are authorized to convene meetings, but power

is generally reserved to the debenture holders themselves (in specified circumstances) if the trustee or the company defaults.

The conditions contained in the bonds or the trust deed will define the circumstances under which meetings are to be held, the notice to be given and, *inter alia*, the regulations for the conduct of the meeting.

Creditors' Meetings.

These meetings are convened—

(1) When the company proposes to make a scheme of arrangement with its creditors under Sec. 120 of the 1908 Act; and

(2) In the winding-up of companies (voluntary or otherwise) under Secs. 152, 188, 191, or 219.

In many instances, the company is insolvent, but this is not necessarily the case, as where a company is being wound up voluntarily for the purpose of amalgamation with another company, meetings of creditors must be held under Sec. 188.

The chairman at creditors' meetings held to consider schemes of arrangement under Sec. 120 is, usually, the chairman of the company. Where a company is being wound up by the court, the chairman at the first meeting is the Official Receiver or his nominee, and at subsequent meetings such person as may be appointed. Usually, the largest creditor is asked to take the chair.

Meetings of creditors may also be convened privately by a debtor and the proceedings at such meetings will be quite informal; no special procedure is required.

Records of Meetings.

Sec. 71 of the 1908 Act requires that every company must keep minutes of the proceedings of all general meetings and also of directors' meetings in books kept for that purpose. This phase of the subject is separately dealt with in the section on Company Secretarial Work.

Conclusion.

The law relating to meeting procedure is governed very largely by case law, i.e. legal decisions on cases which have been brought before the courts; hence the large number of cases quoted in this section.

Commercial Arbitrations

By R. W. HOLLAND, O.B.E., M.A., M.Sc., LL.D.

DURING the past forty years it has become a commonplace in business life to arrange that in case of differences arising between parties to a business transaction the matter shall be referred to an independent expert in the trade, or to a qualified accountant or other specialist for his decision rather than that the parties should have resort to a court of law. Some of these arrangements are quite informal; many of them amount only to the interpretation of a single term of a contract according to trade usage, but each of them contains the germ of the arbitration principle. In its broadest sense arbitration means the coming in of an independent party who is called upon to decide a difference of opinion between two other parties or sets of parties. Where both the contending parties are agreed that they will place the facts of their case before another person and that they will abide by his decision, questions of procedure, methods of giving evidence, and finally the method of setting out the decision are by no means matters of importance. Given the decision, two business men will generally abide by it, and this applies to the bulk of what are known as commercial arbitrations. Where difficulties have arisen, however, it is not uncommon to find added difficulties arising out of the arbitration itself. Definite rules have been laid down to meet such cases, and formal arbitration has been provided for by the Arbitration Act, 1889. It is usual in agreements to submit matters to arbitration to refer to this Act as intended to be incorporated into the agreement.

Arbitration Act and Submission.

Like most other branches of commercial usage in which the legislature has interfered, expressions have become stereotyped and technical, so that the business man should make himself acquainted with such terms as *reference*, *submission*, *award*, *umpire*, *special case*, etc. Where two parties enter into a contract, one of the terms of which is that points of difference shall be settled by reference to arbitration, the short clause making this provision is technically called the *submission*. Shortly the submission is an agreement to refer to arbitration. It is clear that such an agreement could well be verbal, but a verbal agreement is always difficult of proof, and in consequence the regulations laid down in the Arbitration Act will not apply to a verbal submission. This fact will not make the agreement any the less a contract;

it merely means that the arbitration will be conducted according to the ideas of the contending parties rather than according to the rules laid down in the Arbitration Act. In order that the Act shall apply the submission must be in writing. It does not require any special form, and the general clause in a partnership agreement to the effect that,

"All matters of difference in relation to the partnership shall be referred to arbitration" will be a sufficient submission. A fuller clause will take the following form—

"All matters of difference in relation to the partnership affairs shall be referred to the arbitration of two independent competent persons engaged in or well acquainted with the chemical industry, one to be appointed by each of the said partners, and any such arbitration shall be subject to the provisions of the Arbitration Act, 1889."

The Arbitrator's Qualifications.

In most contracts of a continuing nature such as partnership, contracts of insurance, building contracts, and the like, there will be found a "submission" to arbitration, that is, an agreement that any dispute arising out of the contract shall not be referred to a court of law, but shall be the subject of an arbitration. It is a well-known rule of English legal procedure that no agreement made between parties can deprive the English courts of their right to adjudicate in matters of difference between contracting parties, but if two persons agree that they will not resort to the courts there can be no harm in their carrying out this agreement. If, however, a difference of opinion arises on the agreement and one of the parties in spite of it goes to the court, the court, whilst strictly upholding its own rights, may order the matter to be decided by arbitration. Traders who are members of trade organizations may by their rules be bound to submit matters of difference arising out of their business to the arbitration arranged for settling disputes on account of members of the particular organization, and in connection with chambers of commerce in some of our larger cities, chambers of arbitration are provided. The persons appointed to determine matters of difference under trade organization regulations or under special agreement to submit to arbitration are called arbitrators, and their judgment on the matter is known as the "award."

No special qualification is laid down for an arbitrator, but where bodies of business men set

up chambers of arbitration experts are nominated for their practical knowledge of the subject matter of the dispute. Although an arbitration, follows very much on the lines of an action in a court of law, evidence being heard and weighed, a legal qualification is not necessary in the arbitrator, indeed a practical business man is often able to handle the case much more freely by reason of his expert knowledge of the business under consideration. Thus, if a difficulty arises in relation to the quality of wool supplied in filling an order,

moment secondary methods known to English law are—

1. Where the matter is before the court and points arise which are better settled by an independent consideration of the whole of the facts, the court may make an order that the case be referred to an arbitrator, the parties thereto consenting to this procedure. Such a reference would be an arbitration by order of the court with consent.

2. If a case before the court is likely to prove



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the arbitrator would generally be a man in whose experience and knowledge of the trade both parties had implicit faith. Where, however, a combination of the lawyer and the business man can be found or where the interpretation of a contract is in question, a lawyer might judiciously be selected; on the other hand, if the points in dispute are of a financial nature an appropriate arbitrator would be a qualified accountant.

How Arbitration Arises

Arbitration may arise in one of four ways, and from the point of view of this section the most important is under agreement to refer matters in dispute to arbitration. The other, and for the

difficult owing to the necessity for examination into documents, scientific research, or complicated accounts, the matter may be referred back to one of the official referees, quite independently of the consent of the parties. Such arbitration is compulsory arbitration by order of the court.

3. Certain statutes make provision for arbitration to be resorted to in case of difference. Thus where a railway company wishes to purchase land for the purpose of carrying out its statutory powers, and an agreement cannot be reached with the vendor, the price and other details are, under the statute which applies, settled by arbitration. Similarly workmen's compensation cases may be decided by arbitration and, in fact, there are a

number of statutes which make provision for arbitration in case of difficulty or dispute.

The Arbitration Act, 1889.

The Arbitration Act of 1889 applies to arbitration by agreement, and also to arbitration under special statutes. This Act may, by agreement, be excluded or some of the rules may be excluded by implication. Thus where the submission provides for two arbitrators the rule that one only shall hear the case is excluded.

The question of the meaning of a submission was raised in a case which was reported in *The Times* of the 26th October, 1923. Contracts for the sale of tallow had been arranged between two parties and in each of the contracts the arbitration clause was as follows—

"Any dispute arising out of this contract to be settled by arbitration in London in the usual way."

Difficulties did arise; the buyer claimed repayment of a sum of money said to have been overpaid, and the seller admitted the claim but put in a counter-claim. In accordance with the clause, one of the parties appointed an arbitrator and gave notice to the other party to appoint his arbitrator. The second party failed to make any appointment and the first party's arbitrator, acting as sole arbitrator, made the award, the enforcement of which was contested on the ground that the dispute had not been referred to "arbitration in London in the usual way." It was suggested that the phrase "in London in the usual way" meant in accordance with the conditions of the British Chemical Trade Association. On the other hand it was further claimed that under the Arbitration Act a single arbitrator could not act without the concurrence of both parties, and as both had not agreed to the arbitrator, the award was bad. Evidence was called to show that in the absence of special rules to the contrary, the usual course in London was for each side to appoint an arbitrator and for these two arbitrators to appoint an umpire; but if one side had appointed an arbitrator and the other side, after due notice, omitted to appoint his arbitrator, the arbitrator who had been appointed could proceed alone and decide the dispute for himself. Further evidence was given that each arbitrator appointed should be a member of the trade concerned in the dispute, although this was not essential. The evidence, therefore, was such as to show that the custom in several trades was to follow the rule laid down in Section 6 of the Arbitration Act. It was decided in this case that there was sufficient evidence of intention to follow the London custom of having two arbitrators to take the case out of the rule contained in the First Schedule of the Act, that is, that the reference shall be to a single arbitrator if no other method of reference is provided; consequently, the award with costs was allowed to stand.

Very definite rules are laid down for the conduct of proceedings, and it is the duty of the arbitrator to make himself familiar with the Arbitration Act and also with the terms of the submission. The business man in his turn should be careful to read the Submission Clause. What has already been said indicates that an agreement to submit to arbitration does not necessarily bar an action in the courts; indeed, sometimes it is necessary to bring an action in order to enforce the judgment of the arbitrator or, as it is generally termed, to enforce the award. The case mentioned above illustrates this principle. In the majority of cases, however, where the question of referring arises and one of the parties to a submission brings an action instead of submitting to arbitration, the court will enquire as to whether there is sufficient reason for such a step, and generally the arbitration will be ordered to go on.

Schedule to the Act.

If the submission is a bare agreement to refer matters in dispute to arbitration, as in the partnership clause first mentioned, then Section 2 of the Arbitration Act will apply. This section says that unless a contrary intention is expressed in the submission, the First Schedule of the Act shall come into operation. This Schedule is quite simple to understand, and should be noted by all concerned in commercial arbitrations; for this reason it is set out in full in the following paragraphs—

(a) If no other mode of reference is provided, the reference shall be to a single arbitrator.

(b) If the reference is to two arbitrators, the two arbitrators may appoint an umpire at any time within the period during which they have power to make an award.

(c) The arbitrators shall make their award in writing within three months after entering on the reference, or after having been called on to act by notice in writing from any party to the submission, or on or before any later day to which the arbitrators, by any writing signed by them, may from time to time enlarge the time for making the award.

(d) If the arbitrators have allowed their time or extended time to expire without making an award, or have delivered to any party to the submission, or to the umpire a notice in writing, stating that they cannot agree, the umpire may forthwith enter on the reference in lieu of the arbitrators.

(e) The umpire shall make his award within one month after the original or extended time appointed for making the award of the arbitrators has expired, or on or before any later day to which the umpire by any writing signed by him may from time to time enlarge the time for making his award.

(f) The parties to the reference, and all persons claiming through them respectively, shall, subject to any legal objection, submit to be examined by the arbitrators or umpire, on oath or affirmation, in relation to the matters in dispute, and shall, subject as aforesaid, produce before the arbitrators or umpire, all books, deeds, papers, accounts, writings, and documents within their possession or power respectively which may be required or called for, and do all other things which during the proceedings on the reference the arbitrators or umpire may require.

(g) The witnesses on the reference shall, if the arbitrators or umpire thinks fit, be examined on oath or affirmation.

(h) The award to be made by the arbitrators or umpire shall be final and binding on the parties and the persons claiming under them respectively.

(i) The costs of the reference and award shall be in the

discretion of the arbitrators or umpire, who may direct to and by whom and in what manner those costs or any part thereof shall be paid, and may tax or settle the amount of costs to be so paid or any part thereof, and may award costs to be paid as between solicitor and client.

We have already spoken of informal arbitrations, but it should be remembered that the law recognizes formal arbitrations only. The Arbitration Act of 1889 lays down definite rules for the carrying

is merely an agreement without details, the reference will be to a single arbitrator. So formal is the idea of arbitration that applications can be made to the court in many cases, and the court has power to appoint an arbitrator where the parties cannot agree on a just selection. Similarly where there are two arbitrators and they cannot agree upon the appointment of an umpire the court has authority to act in their stead, and in



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out of references. It should be remembered that a submission is a contract, and unless a contrary intention is expressed in the submission itself it is irrevocable, except with the permission of the court. In other words when parties have agreed to submit matters to arbitration neither may change his mind and substitute for arbitration, legal proceedings. There are circumstances, however, under which once the arbitration is commenced the authority of the arbitrator can be brought to an end, and these will be mentioned later.

The number and character of the arbitrators will depend upon the submission, and as we have seen, where the submission is in writing, and it

any case where an arbitrator or umpire dies, refuses to act, or is incapable of acting, and the submission is silent as to the procedure in such a case, the court will make an appointment on the request of either of the parties.

Special Case.

From the reading of the schedule to the Arbitration Act, 1889, already set out above, the powers of an arbitrator or an umpire will be noticed, namely, that unless the contrary is arranged an arbitrator or an umpire may examine witnesses on oath and for that purpose he may administer or take affirmations. If he finds any difficulty on a matter of law, or if the whole subject matter

of the arbitration is a question of law, he may give his decision either wholly or in part in the form of a special case upon which the court will pronounce, or if in the course of the reference he requires the assistance of the court he has the authority to lay matters of law before the court. This is generally called "stating a special case." A special case would not generally be stated without the consent of the parties, as naturally this increases the expense and arbitration is essentially arranged as a business way of avoiding expensive litigation. Once the award is made the arbitrator has no further authority, save that he may correct a mere clerical error arising from accident.

Procedure.

The arbitrator's court is to all intents and purposes a court of law. Witnesses can be called before it, and the procedure by *subpoena* is the method adopted in order to bring them before the court. In consequence, evidence given must be the truth, the whole truth, and nothing but the truth, and false evidence in an arbitrator's court amounts to perjury. The powers of the arbitrator in the matter of witnesses are limited by the wishes of the parties, and just as a court of law will not call witnesses but leave the matter to the litigants, so will the parties to the dispute generally consent to the examination of particular persons. Whilst strict legal evidence is not generally found in an arbitrator's court, the usual rules of evidence will apply. Thus, for example, *ex parte* statements will not usually be admitted, and both the parties to the difference should be summoned and be present when evidence is taken. The arbitrators must fix a reasonable time and place for the holding of the enquiry, and give proper notice to the parties of these facts. If one of the parties refuses to attend, the arbitration may go on in his absence, but where a reasonable excuse is put forward the hearing should be adjourned. The parties are entitled to represent their own case, or to be represented by counsel or a solicitor, and at the conclusion of the hearing the arbitrator must with promptitude come to a decision, that is, make his award. Where there are two arbitrators and they cannot agree as to the decision, the umpire will now enter on the reference. He has the same powers as the arbitrators, and unless he has been sitting with the arbitrators the case will be heard completely by him. The schedule to the Act provides that the award must be made within three months of entering on the reference, but the arbitrator himself can, as already indicated, extend the time. The award must be in writing, no set legal phraseology need be used, but the arbitrator or umpire may use what terms he

likes provided he complies with the following conditions.

The Award.

Every award must be certain and definite and possible of performance. It must be in keeping with the evidence, and above all, it must bring the matter in dispute to a final conclusion, remembering always that if a point is left for the court to decide and the arbitrator states his award in the form of a special case, the award will be deemed to be final and conclusive, because the decision of the court will make it so. The award is not binding unless it is signed by the arbitrator or arbitrators, and it must be stamped with a 10s. stamp.

The arbitrator has the power to fix the costs, and these should form part of the award. His fee is part of the costs of the arbitration, and if it is not already fixed he is entitled to fix it in the award.

Taking up the Award.

The decision of the arbitrator is not declared in open court as a legal decision is declared. The arbitrators prepare their award and without disclosing it they notify the parties that it is ready and signify at the same time the amount of the charges incurred. Either party can then "take up the award" on payment of the charges. The arbitrator or umpire may refuse to give up the award until his charges are tendered, that is, he has a lien on the award for his costs. The party taking up the award may enforce it just as he can enforce a judgment. There is no appeal, but the award may be objected to on various grounds, namely—

1. In a compulsory reference by order of the court, if a mistake of law or fact is evident ; or
2. If the award is not final but deals with part of the dispute only ; or
3. If any of the requirements set out above as being the requisites of a valid award are absent ; or
4. If the arbitrator has exceeded the terms of reference ; or
5. If the arbitrator has misconducted himself by acting corruptly, being biased, or impartial, by rejecting evidence improperly or refusing to state a case on a point of law when requested by one of the parties ; or
6. If the terms of the submission have not been complied with.

Where *in course of the proceedings* any of the facts under head 5, above, are proved, the court may revoke the power of the arbitrator on an application being made by summons in chambers. In such a case a new arbitrator will be appointed. Where an arbitrator states a special case, the ruling of the court, like a judgment in a lower court, is subject to an appeal in some cases.

Aids to Business Organization

By H. ELLIOTT STONE

CHAPTER I

STAFF TRAINING

THE groundwork of all successful staff training is a thorough knowledge and understanding of human nature; this includes a recognition of the fact that humanity is made up of units, *all different*. It is the "all different" part which makes staff training a matter of such infinite patience and continual study.

The two facts which form the starting point of any system or theory of staff training are that it is practically impossible to get an absolutely perfect employee and it is always possible for a worker to do better work. Your training efforts will all tend towards the central result of getting the best possible work out of your staff. To get this best possible result it is reasonably obvious that you must be able to give the workers a strong incentive to put their finest efforts into what they have to do; you must be able to demonstrate to them just which is the way you want them to work and you must give them every opportunity to learn to do their work better.

"It is the hope of reward which sweetens labour," and any attempt to get round this definite and reasonable truth is an invitation to ultimate failure. It is much simpler and safer, besides being more satisfactory, if you decide at once that the better the inducement the keener will be the enthusiasm; to which should be added the suggestion that it is the special mission of the staff trainer to be able to get the greatest enthusiasm and competent service, for the least expenditure. That is the strictly business aspect of the matter.

The beginning of it all is the work which has to be done and for which you want the staff. Whatever it is, the sound policy is to calculate carefully just what staff you want for the work to be done really properly and then, if your allocation of salary or wages will not allow for the amount of staff which seems necessary, it becomes a matter of adjusting your working arrangements so that a less expensive staff can cope with it. The staff trainer's slogan is "There is always a better way," and it is the discovery of that better way which means better work for less outlay.

Accommodation, Etc.

There is, too, the question of accommodation and the necessary working tools. Though it is so

obvious that better work can be done with good tools and comfortable conditions than under indifferent circumstances, yet there is frequently an inclination to be niggardly in these matters with the consequent effect of being penny wise and pound foolish. The right thing to do is to decide (whenever possible) just what is the fair limit of necessity in both tools and comfort and then to provide it. It certainly pays to spend a good deal of thought and even some money to enable your staff to get on with their work without hindrance to themselves or to others through lack of sufficient equipment and materials, or because the general arrangements of the office do not make for smooth working.

In selecting a staff the first consideration should always be to get intelligence. Unquestionably, the greatest business necessity and the most valuable asset is a keen intelligence.

Applications for Positions.

Nowadays staffs are generally recruited by means of newspaper advertisements and a personally written application is strongly advised even when the work does not actually concern itself with writing. The letter is your best clue to the character of the applicant. The handwriting indicates the kind of person which the writer is and, allowing for the natural anxiousness which the occasion may have caused, a tolerably fair estimate of the applicant's character can be deduced. Is he neat? Then his handwriting and his way of arranging the letter show it. Is he intelligent? Then you find a good deal of useful information in his communication. Is he steady? Then the writing is of the careful kind and the tone of his application is in set phrases and precise facts. Is he enterprising? Then perhaps his letter will be typed and it will certainly be on good paper; usually a stamped envelope comes from this style of applicant and he makes some definite suggestions. So these letters help you to find the right person for the position you are filling.

Interviews.

The interviews with applicants are full of interest though it so often happens that the ideal we are seeking fails to be discovered. Of course, all staff trainers are bound to expect a great deal too much but they often miss what they are looking for because they lose their sense of the detachable view-point. Many a quite good applicant

arrives at the actual interview in a state of decided over-anxiousness and funk. He is in the worst possible state to be judged as a candidate for a vacancy. There is a whole art and education in being able to create just the right impression at a business interview.

Intelligence.

The most successful way, short of actually taking him on trial for a few days, is to endeavour to make the applicant talk freely. If the eyes are the surest index to the intelligence of a person, then conversation is also a ready guide to his general ability. If you can once get behind the surface nervousness and establish a feeling of friendliness, the conversation of the following two or three minutes will tell you what kind of person you are dealing with. His actual technical ability will be disclosed by test but, unless you are satisfied, it is very unwise to engage him on the results of that test alone. Development of ability depends almost entirely on intelligence. Given an intelligent pupil a trainer can usually develop a fine ability, but unless the intelligence is there, all training effort is in vain.

Good Health.

Good health and energy are important assets in your staff, and a little information and instruction from a friendly doctor as to the various indications of these special qualities will easily save many pounds and many failures.

Early Influence.

The staff trainer's best chance of influencing a worker in the right direction is at the very beginning, just when the worker starts his career. On any staff of more than one there is always someone ready to encourage and help the new hand to go along the road which means doing as little as you can for your money. Workers in general are not inclined to help a new-comer to do his work better, because they have the instinctive fear that he will get on too well and eventually displace them. That is why the staff trainer needs to concentrate all his energies on the new assistant at the very commencement of his service.

By means of personal interest, clear and definite instructions, and explanation and encouragement a fresh worker can, within a short time, be made to understand that in all respects it is better for him to develop his energies towards doing his work as well as he can rather than to need the constant spur of the supervisor.

The initiation of a new employee is a matter which should be done with care and enthusiasm, because it is the first impressions which so strongly influence anyone when they are taking up a fresh position, and if you can get your worker thoroughly satisfied and able to concentrate upon his work,

to the exclusion of any other matters, then that worker is going to do better work and more of it.

Some of the items which are trifles but which help materially to make the staff feel in a working mood are these: There should be a place where they can safely leave their clothes and where they can wash and tidy themselves conveniently. A reliable clock within easy sight saves many a wasted minute. A comfortable chair is such a decided help to fine work that it is wonderful that there are so few of them to be found in places where work has to be done. A reliable and regular system of office and works cleaning and table dusting is a boon and a blessing, while a really satisfactory arrangement of lights is an essential to economy.

There should always be a collective meeting of the staff trainer, the new man, and the person under whom he will be working. At this interview it should be made quite clear that good work, and as much of it as possible, is what is expected and required. Additionally it should be intimated that a reasonable training and help will be given, and that in all cases of difficulties or trouble the new man is at perfect liberty to come and get the advice of his overseer or the staff trainer. It must be thoroughly emphasized that under no consideration are mistakes of any kind to be passed over or hidden; they must be reported at once and at all costs, so that the best remedy can be applied straight away and the damage minimized. Mistakes ignored are one of the most serious causes of loss of business and profit.

Threats should have no place at all in a staff training system. Business, in the present instance, is a bargain between the employer and the employee and both parties in their mutual interests should and must try to help each other. If an employee does not keep reasonably near to doing his work properly then he should have this explained to him, and if he still fails, then dismissal should follow; not with any idea of spite or anger, but simply because the business cannot be carried on by an inefficient staff.

Instructions.

A new member should always be given full and clear instructions as to his duties and, whenever possible, a written copy of these instructions should be handed to him at the same time. The utmost pains and patience should be taken to make sure that the instructions are understood. If necessary, the information can be given in sections at suitable periods until the whole work has been thoroughly mastered. If the work is of a technical nature the process is, of course, much longer, but it is imperative that there should be a real understanding of what has to be done and how it is to be done. If this first instruction work is done really well, it will save endless future corrections and the worker will have more confidence

in his struggles to master the details and become proficient in them. If it can be shown just exactly how his work affects others and the business generally, this wider knowledge all helps to get a worker interested and efficient.

Every new worker should be introduced to one of the other workers who will be expected to become responsible for initiating him into the various traditions and general details of the business.



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A SHOWROOM OF STOLZENBERG OFFICE FURNITURE

Other Information.

A typed statement of any facts of the business which will be helpful to him and a list of the names of the staff with their functions, etc., together with any similar information should be handed to the new member, and he should be encouraged to write to the staff trainer at least once a month giving an account of his work and progress and including any idea which may have occurred to him in connection with the business. If the staff trainer can spare sufficient time to write a personal letter in reply, so much the better. Nothing encourages a worker more than to know that someone of consequence is interested in his work.

Punctuality.

Punctuality is an urgent necessity in business but it should be at both ends of the day. If the nature of the employer's business is such that it necessitates an occasional extra hour or two of overtime, then, unless it is specially agreed upon at the outset, there should be some compensation given. Getting away to time has an extraordinary importance to the employee; and working overtime is the most usual cause of discontent.

One of the daily pleasures of the up-to-date staff trainer is to pay a visit to every one of the staff under his charge. He should try to get the head of the firm to join him. An employer

can get better service from a loyal staff than from any other, and get more loyalty when the staff discovers that he is really interested in what they do.

Encouragement of Ambition.

It is a splendid investment if the employer can arrange to help towards the cost of special studies for any of the staff who are keen enough to spend some of their evenings in learning some fresh development of their work.

No thought of staff training is complete until it includes some decision about the special inducement which you offer to your staff to encourage them. The mere paying an agreed wage or salary is not enough to make a man do more than just a fair day's work, but it is just that bit of extra effort, that morsel of enthusiasm, which makes your business less unwieldy and makes it better able to deal with its affairs satisfactorily. There is a valuable margin both in quantity and in quality between the work a man does when he has to do it and what he does when he wants to do it. What is that important difference worth to you?

The staff trainer will prove himself a very valuable man indeed if he can solve the riddle and secure to his firm that difference in service.

Profit-sharing Systems.

Profit-sharing is not popular with the profit takers, but it is the clue to the secret which would transform many a present-day decaying firm into a prosperous and splendidly progressive organization.

The simplest way yet discovered of working a profit-sharing scheme is to allot a certain percentage of the annual increase of profits to the staff, the amount being divided out in exact proportion to the total amount of remuneration they have received from the firm in that same year. Directly the staff know that every shilling's worth of waste means something less for them to draw as a bonus, then they will quickly set about cutting out the waste wherever it occurs, and they will form a mutual spur to each other's efforts.

Sense of Fairness.

The keynote of successful staff training is an absolute sense and practice of fairness. The worker has usually a pronounced idea of the justice which he *expects*, and it is wise to try to avoid giving him even the semblance of a grievance. He should never be compelled to ask for an increase; if he is worth it he should get it at once, but should he ask for more money or a higher position and the employer is satisfied that he is not entitled to it, then it is as well to be at pains to explain just exactly why the man cannot have his wishes granted.

Promotion should always be made on actual merit and ability. Nothing in the nature of

favouritism should be allowed to influence a man's chance of getting on. Length of service has little or no business connection with an increase of remuneration. If a worker does not improve with age, neither should his payment.

Trade papers and business books should always be easily available to the staff, and visits to other business houses should be arranged if and when possible. There is a valuable education in seeing how other people work. A house magazine, to which the staff are expected to contribute, is a good way of stimulating ideas and interest.

It happens sometimes that a worker shows some special ability quite apart from the work for which he was engaged and, on the principle that it is better to develop a natural talent than to try to produce an artificial one, any such employee should, whenever possible, be transferred to the work which he seems most fitted to perform.

Records.

For his own guidance and help the staff trainer must keep a good and intimate record for every employee for whom he is responsible. This record must be added to frequently and constantly studied. Also it must not be possible for any other member of the firm ever to see it. With a system of careful and continuous recording it soon becomes possible to tell at once which are the real assets, which the indifferent, and which the slackers to be got rid of at the first convenient moment.

CHAPTER II

THE SUPERVISOR AS AN ASSET AND AN ESSENTIAL

Who seeks popularity must avoid, at all costs, any position which carries with it the function of supervising. Human nature being what it is, with its strong inherent hatred of being disciplined, the work of the supervisor takes very much of the character of walking on thin ice. It is so usual for it to be thought an achievement if the supervisor can be outwitted that, in sheer self-defence, the supervisor has to adopt the fixed principle that "men were deceivers ever" and he has to add to it, too, the feminine group. That is not a difficult attitude to adopt; the serious difficulty comes in the more important fact that it is fatal to his chance of success if the supervisor gives any hint of his utter disbelief in the virtues and honesty of those over whom he keeps watch and ward.

Present-day commercial life is becoming more and more a matter of efficient team work and that, unfortunately, is just the kind of work to which the average Englishman and still more the average Englishwoman find it so difficult to adapt themselves.

Up to a point it has to be admitted that, like the policeman, the supervisor is actually a very necessary evil and also in a way a serious reflection on the organization which employs him, but that opinion of the supervisor is only possible because the full significance of the supervisor's worth is not clearly understood. This official's functions do not begin and end with the bogey-man theory.

Successful Supervision.

It is not easy to do as we are told, nor conveniently to fit ourselves into the precise niches arranged for us by others; only comparatively seldom does it happen that a person can successfully (that is, with comfort to himself and entire satisfaction to an employer) work along the lines laid down for him. There is usually an irksomeness and consequent wastage of effort and it is just at this point that the supervisor gets his chance to show his ability and value.

Successful supervision carries with it, as an essential, the gift of being able to discover the sum total of the abilities of every single individual whose work comes under notice.

As a useful intermediary between the chief and his subordinates the supervisor plays an important part. Dissatisfaction, ambitions, abilities, slackness, jealousies, and the weak spots of all kinds, these are the daily round of difficulties of the supervisor and these he has to sort out and deal with as his judgment demands—a work which, if it fell on the chief would easily become an intolerable burden to him and a serious hindrance to his more important engagements.

Anyone who has the control of a staff quickly discovers that, at the best, every single one of the number is lacking in some quality which makes for the ideal, 100 per cent efficiency, and it usually happens that by a course of persistent treatment it is possible to eliminate quite a lot of this disability.

The effort of the supervisor is to keep the percentage of wasted effort and poor service at its lowest. This is his continual task.

Importance of the Individual.

The reason why so many workers who occupy the humbler positions do not pull their full weight, or put into their work their fullest and best effort, is because they do not realize that it matters. Modern conditions of working tend to make it impossible for the units to see that their work has any serious effect on the whole organization. If you are only one of a thousand, it hardly appears likely that the quality or amount of your service will help or hinder.

The Functions of the Supervisor.

Business is like a machine which is made up of a number of cog-wheels; the better the cogs fit the speedier the machine goes and the smoother it works; there is more output and less friction.

The supervisor's mission is to keep constantly to the work of making the cogs fit better and readjusting them so that they increase the speed and lessen the waste of power of the business machinery. It might perhaps be said that the supervisor is the antidote to staff friction, the oil to the commercial cogs.

The supervisor is also of great value to a firm because he can easily and at once deal with almost any of the difficulties which crop up (usually suddenly) in every business house. Your finest emergency man and stop-gap is the supervisor first, because he usually knows exactly what to do and how to do it, and also because it saves any awkward dislocation of the general staff when the supervisor takes the matter in hand. He, like the chess player, knows just what pieces to move without too serious a sacrifice or unnecessary risk.

As a staunch supporter and reliable friend to the heads of departments and not less as a peacemaker too, the supervisor plays his part as a useful member of the firm. Loath as we all are to admit ignorance or inability, it is yet very helpful to know that, for the mere asking and without the slightest reflection on our efficiency, we can, at any time, get just the very help we need, and we can get it from a man who is interested in giving us the best help possible and who has probably solved similar difficulties many times already.

So, too, in the eternal undercurrent of the rivalries and schemings which hinder the best working of the staff, the supervisor can, and does, make his power constantly felt. In a world where it is usually the other man who is wrong an able and tactful mediator has a busy time and certainly a thankless task, but it makes for better staff efficiency and that is the sum total of the varied affairs which range themselves under the heading of the supervisor's duties.

By the very nature of his whole efforts and responsibilities the supervisor is bound to become the severest critic of everything connected with his firm and, as his position gives him a decided standing, his opinions are of the utmost value to the head executives when they have any important question of business policy or difficulty to discuss and decide.

Any supervisor with the slightest fitness for his calling makes it a very urgent part of his duty to get to know every possible detail about the businesses and plans of the rival firms. With persistence and keen intelligence he, in course of time, gets to have a good working knowledge of what is going on inside the organizations against which his firm are battling. With this knowledge he can readily distinguish between the scare rumours and the ugly facts.

So, too, is he keen upon anything which suggests a better way of doing any of the many things

which his staff have to do. He is the pioneer, the advance agent for his employers; he is their outside scout and their intelligence bureau; his interests concern the business as a whole and not one or two special sections of it.

Perhaps the most unfortunate part of a supervisor's work is that it is so usually unobservable in the bulk. No one gives fair credit to the

CHAPTER III

THE HUMAN ELEMENT IN BUSINESS

It must have been in the so-called "Dark Ages" when someone jokingly remarked "there is no sentiment in business." The remark has the



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FINISHING AND REGULATING THE ACTIONS OF VOTEE PIANOS

supervisor for the many things which he puts right, and indeed most of his activities are unknown because they are, in the nature of such things, many little deeds of quiet and continual effort on the lines of argument, persuasion, demonstration, and personal service. Much of the work too is of the preventive kind. Like the engine driver who, by the easy turn of a lever can control a big engine, so the supervisor can, and does, keep an organization running smoothly by the simplest of means and by constant and unfailing attention to every detail. The one item in your overhead charges which you should never quibble about is the cost of an efficient supervisor.

seeming truthfulness of the half-lie, and in the course of its wide acceptance it has made infinite trouble and been the excuse for numberless dishonest tricks and sharp practices.

Now, anything which concerns itself with humanity cannot possibly be devoid of sentiment, because sentiment is one of the very essentials of the human composition, and business is entirely a matter of dealings between human beings.

Inherent Prejudice.

With a view to a better understanding of the most likely policy to help his business to success it is valuable, though unusual, for a business man

to attempt to get out a definite list of the main forces which govern human action when buying. Obviously, the more accurately you can gauge the various favourable and unfavourable influences which are actuating your customers, the more readily and successfully will you be able to trade with them.

On the side which is against you, you must put the fear of being cheated, the anxiety to get good value, the lack of means, a natural instinct to hesitate and dissemble, a distrust of one's judgment, an absence of absolute necessity, a prejudice of some kind, a possible bad reputation, ignorance of your existence, your inaccessibility, a more clever rival, a poor service. These are some of the things which are on your debit side, and they form the bulk of your selling problems.

On the assets side you get the general habit of buying, the possible need for your goods, the absolute necessities of life, the inclination of buying to satisfy personal indulgence and cravings, goodwill, reputation, the desire, for some reason, to help you. These are the influences which you must develop and use to the very utmost; and your selling policy includes a big effort to get the full stream of these influences to bring trade to you.

The Best Work at the Least Cost.

One aspect of the question concerns itself with the problem of modern business, viz. to get the very utmost out of one's staff without, at the same time, making the salaries and wages sheets abnormal or out of proportion to the results achieved.

Of late years it has become fairly well recognized, certainly by most of the biggest of the commercial organizations, that the driving methods beloved by army sergeants and their kind certainly do not compare favourably, from a business point of view, with the various ways of persuasion which are now used to encourage the workers to do better and still better work. At the outset it would seem that the simple solution is to get good men or women and to pay them a fair salary. The two very exasperating facts which prevent the adoption of such a simple way out are that the terms "good men" and "fair salary" are so elastic of interpretation, and there is usually a very wide margin indeed between what the employer and the employee consider "good men" and "fair salaries."

Causes of Dissatisfaction.

A great cause of the present-day commercial dissatisfaction is the persistent attempt of the worker to mix his politics with his employment. The worker has the idea that his employer has some duty and responsibility to him over and above any question of wages paid for services rendered. The butcher and the tailor are not paid more for their goods than the marked or agreed price. Should the butcher break his leg,

his customers feel under no obligation to help him; yet an employee is aggrieved if he does not get a holiday each year, with full pay, and if he is not paid for Bank Holidays; further, he expects to be paid in times of illness.

Hence there exists a constant smouldering sense of dissatisfaction in the minds of both parties to the business contract. The employer feels that he is compelled to pay a big sum for services *not* rendered, and the employee suffers from a conviction that he is entitled to more remuneration than he gets.

It is obvious that the firm who can get their staff to put their best efforts into doing their work with the utmost efficiency must have a decided advantage over the concern where the staff do their work just as badly as they dare, and it is well worth the while of every manager of a business to consider first, whether his staff are thoroughly enthusiastic in their efforts to make the business prosperous and, if not, whether he would not be wise to try to find some way by which the present loss of effort could be turned into a 10 per cent increase of services rendered.

Methods of Obtaining Good Work.

It is perhaps exasperating to be compelled to go so far as to have to bribe a staff into working really well, but if, as a business proposition, it adds more profit to the firm over and beyond what this bribery costs, then it is the merest common sense to make the arrangements as soon as possible.

Sooner or later you discover in business that most things have to be paid for; good and loyal service is one of these things for which it is worth while paying well. The right policy for business building is to get the best staff you can afford, not to attempt so-called "staff economies" by fitting the man to the price.

Some generous arrangement of profit-sharing should always form part of the general scheme of any firm which has any ambition at all. You have a right to expect a man to do the work for which you pay him, but it will pay you to encourage him to do even more than his actual job. All members of your staff can, *if they like*, help your organization in some way over and above their usual work, and they *will* like if they know that they are going to get something out of it. That is a predominating phase of the human element in business.

The Human Element in Salesmanship.

The relations between buyer and seller afford another instance of the importance of the human element in business. Be the goods what they may and the value of them however exceptional, it is still a fact that the buyer has a preference for one class of salesman or merchant to another. A great deal of what is termed in business

"goodwill" depends for its value on that part of the buyer's inclination and temperament which is not connected [with strictly business considerations.

It is not the cleverest doctor who gets the largest fees or has the wealthiest practice, and the hat which costs the most to produce is not necessarily the one which commands the highest price. There is a strong human element in the buyer and it is the buyer who is the most important force in the business world. That is why a close recognition of this trait and a common-sense application of it will make a great difference to the success of your undertaking, whatever it is. For instance, there is the strongly human instinct and sentiment for buying where other people buy. Thus it comes about that there are distinct shopping centres, and it happens that a shop in just the right place proves a veritable gold mine because the buyers naturally go to that shop; whereas premises just out of the natural shopping channel might, for the sake of twenty yards or even less, be an entire failure.

It is the human element in business which accounts for the exasperating persistence (to the local trader) with which suburban people and country folk go "up West" to do their shopping. Ladies particularly will pay a much higher price, they will pay "spot cash," they will seldom dream of finding fault, but will boast tremendously, even when they have obviously been overcharged, for the apparent satisfaction of possessing goods sold by the famous emporiums in London.

These apparent eccentricities are all part of the many facts which have to be carefully studied and calculated by the man who would win commercial success.

The ideal in salesmanship is to sell as much as you can and at as high a price as possible, while still leaving the customer convinced that he has received just exactly what he wanted and at a most reasonable price, *from the best firm in the world*. You can leave out a good deal of this ideal but, if you want to build up "goodwill," if you want your customer to come back, it is very important that you give the strongest impression of being "the best firm in the world."

Only a relatively small number of people have a clear idea of values but every buyer likes to feel satisfied. The impression of satisfaction lasts long after the price and the article are but vague memories, and it is on this basis that you must build your whole selling policy. This becomes easier as grows the ability of the seller to understand and actually know the ideas which are working in the mind of the buyer. Usually the salesman loses a sale because he harps too much on the price and the value. For the most part, a buyer will give you an order on the strength of your personality if it happens to be the personality which he admires.

Travellers and salesmen seem at a loss to understand this plain truth, but it is worth considering. Why do you prefer to have your clothes made at one shop more than another? Simply because you like the man rather than for any reason of a better fit or value, and this idea of likes and dislikes works like a germ throughout the business world.

There may not be any sentiment in business, but he is a wise man who watches out for the human element and learns how to make it help him to achieve his ultimate success.

CHAPTER IV

THE COMMERCIAL DIPLOMAT

THERE is no doubt that there is an appalling waste in the commercial world, due to the fact that so much of the work done is not productive. Travellers, for instance, make calls and journeys much in excess of any reasonable proportion of results. Buyers will not remember that not only is their own time precious but so also is that of those who call to sell to them. The preparation of quotations and the cost of samples absorb a considerable amount of the expenses in connection with every selling organization and it is certain that much of this outlay is sheer loss. There is a tremendous wastage in the financial adjustments of business firms and a consequent restriction of buying power. Of the businesses which become the prey of the receiver it is certain that a goodly percentage of them might easily have been turned into sound profit-earning concerns had it been possible, at the first signs of weakness, to have found a means of getting the creditors to adopt a more helpful attitude.

Amalgamations.

Valuable opportunities are constantly being lost because the necessary information has not been forthcoming or the essential confidence between the parties has not been established. Firms which should be working in conjunction are, through sheer ignorance, acting in rivalry and so losing much of their legitimate profit, in addition to spending a great deal of money which need not be spent.

Many businesses lend themselves naturally and advantageously to economic amalgamation, yet they remain as isolated concerns much to their detriment, simply because the interested parties have not a mutual channel through which the preliminary suggestions and discussions can be made.

The Need for the Commercial Diplomat.

The modern form of getting rich quickly has been frequently along the lines of amalgamation

with suitable firms and, in not a few instances, by working agreements between rival firms. The biggest trusts, with their millions of profits per annum, have come about by a process of combination and absorption, and it is certain that in the first stages a considerable amount of important work was found for the commercial diplomat.

There are numbers of clever men wasting their efforts on relatively unimportant work just because it is too risky for them to make the venture themselves, and there is apparently no connecting link by which the suitable position can be arranged and likely organizations made aware of their willingness and ability to give them valuable service.

It is so true that though we use the term "business man" very freely and apply it without the slightest discrimination to all and sundry who have the most remote connection with trading transactions, yet there are very few men or women who are at all fairly well equipped with business knowledge and capacity. The full circle of business ability is a rare possession; the average business man is competent only in some respects; he has his strong points and his weak ones. It is the weak points which make for the necessity of what we may call the "commercial diplomat."

Every business man needs occasionally the help of someone whom he can trust, who is, above all, a man of long and successful business experience and understanding; a man with elasticity of view and opinion, who has the valuable gift of being able to explain clearly and lucidly, but above all a man of infinite resource. Such a man can be depended on to save a worried trader from making stupid mistakes and getting unduly scared. He can fix the proportion of hopefulness which the difficulty possesses and get the utmost limit of advantage from any favourable circumstance. He can usually get improved terms and conditions from any pressing creditor because he knows just how to present the arguments in his favour.

In business there is a tendency to boast of your successes and hide your failures, a quite natural line of action, but it is in hiding the failures and mistakes that you are apt to make a still bigger mistake. No one has much, if any, use for a failure and he is so distinctly a nuisance to the business world that the people of standing are most anxious to save a man from failure.

When a business man is in any position where he has to ask a favour, or is compelled by circumstance to adopt a humble attitude, then he is at his worst as an advocate and negotiator. A third party, provided he is possessed of the necessary knowledge and ability, can nearly always get better results.

The Work of the Commercial Diplomat.

To the sales manager the commercial diplomat is of untold value. He it is who can discover

why certain travellers cannot get orders and why certain firms do not, and will not, do business with you. He can decide with reasonable certainty whether the prospects of doing business are such as to warrant the expenses of a traveller's calls. As a peacemaker too, and as the most satisfactory solution to the complaints' department, the commercial diplomat is the person particularly to be recommended. If it is a matter of discovering why a rival organization is doing better business; if it is a question of an overdue account or a badly needed cheque from an important customer; if it is a little trouble with the bank overdraft; or some indulgence is wanted from the creditors, it is much safer to trust these affairs to the diplomatic department.

In adjusting the delicate details of account collection, and the sundry awkward affairs which arise in similar connections, a specially diplomatic person can be worth a great deal. Much of this side of the business is frequently left to the traveller or the general accounts department, and it is seldom that these members of the staff have the right ability and point of view to deal very successfully with these delicate questions.

Many difficulties would be solved if business firms would pay their accounts at the *earliest* possible moment instead of, as so often, waiting until the creditor has to threaten proceedings. The way in which prosperous and wealthy firms keep back their payments and take advantage of the fact that the people to whom they owe money are afraid to press or ask for it, because it may mean the loss of future business, is grossly unfair, but often, by a process of tactful suggestion and perhaps a special discount inducement, prompt payment could be obtained and a fresh order secured.

A valuable asset to any trading concern is its credit, and by the aid of a discreet and persuasive intermediary the amount of this credit can, in a large number of instances, be greatly improved. Few firms get the full benefit of their possible credit simply because this is a matter which needs handling in a special way. The diplomat can usually obtain concessions considerably beyond what the business man would get if he tackled the problem himself.

An Intermediary between Employer and Employee.

On the staff side a fruitful cause of trouble and loss is occasioned because a valuable employee does not quite know how to put his case for increased remuneration, or whatever it is, before the directors and, in the same connection, because the directors are not always inclined to lend a listening ear to an inferior; or perhaps there is some undiscussed but still irritating grievance. A third party might easily be able to form the buffer and make an adjustment between the two

parties with advantage to both. The employee can, and will, open his heart much more freely to a man of intelligence who is not actually his chief than he would to the chief himself, and many things can be discussed and explained in this informal way which would not be tolerated if done officially. Many a firm through taking the

man needs compliments and insincere pandering. He wants somebody who can, and will, eliminate the sentimental and friendly bias from a consideration of the problem to be solved. Granted that you have selected the right man, then it is certain that you will, as a result of your consultation, be much better able to deal with the problem. To



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"dignified" attitude have lost a good man, and many a good employee has changed his sphere because he wanted something to which he was justly entitled, but for which he was not able to approach the directors in the right way.

The Need for Advice.

Every business man stumbles upon periods when he wants some special and honest advice or help on matters which do not concern law, accountancy or finance. He wants someone to whom he can tell the whole circumstances with a sure confidence that those circumstances will be understood and an intelligent honest opinion be given upon them. This is the time when, least of all, the business

your own knowledge and views will be added the independent advice and experience of a man who sees your problem as but one of many, and his sense of proportion enables him to give you just that strong lead which you need.

While independence and the flattering half-true theory that every man knows his own business best, are excellent things in their way, it is still true that for the most of us it would be well if we could be sure that, from the beginning of our careers, right to the very end, we should have sense and strength of mind enough to make use of the services of the commercial diplomat at every right time. He is the man who stands between ourselves and our weaknesses.

CHAPTER V

TRADE PAPERS AND THEIR USES

ONE of the mysteries of business life is the fact that such a small proportion of commercial people take the trouble to buy a trade paper and a still smaller number know how to make the best use of it.

There are about 30,000 tailoring firms in the United Kingdom, and it is doubtful whether the combined sales of the tailoring trade papers amount to a third of that number, though it is reasonable to estimate that the total of possible readers is about 100,000. One person in every ten, therefore, in the tailoring trade actually buys a trade paper.

The Reasons for Neglect of Trade Papers.

A great deal of this indifference is accounted for by the fact that the habit of mind which comes from a continual contact with commerce and trading is opposed to the quiet study, assimilation and practical use of the information to be found in a trade paper. The modern style of hurrying and of sacrificing everything for speed does not make for a class of men who can take a trade paper and study it really carefully. That is a part of our education which seems to be singularly weak.

Freshness of Outlook.

Yet there is a wealth of interest and a wonderful store of valuable educative matter in a trade journal even apart from the mere buying and selling side of its contents.

To the business man the trade paper represents his outside world. He can be tolerably sure that if he studies his trade paper closely and regularly he will know practically everything that is important, and all that it is necessary and advisable for him to know in connection with his own trade. If he is wise he will take the two opposition papers, if two exist. Even editors have "views" of varying inclination. The finest and most necessary quality for a business man to cultivate is freshness of outlook. There is always this characteristic to be found in successful commercial enthusiasts, and there is always greater possibilities for the man who refuses to allow his mind and view-points to become stale and stagnant.

It might even be said that the limit of progress is marked by the ability to absorb and use new ideas. That is where and how the trade papers are so very valuable.

You cannot possibly read a trade paper without being made to understand that there are many bigger and better ways of doing business than your own. According to your type so you will benefit by that knowledge; you will either be indifferent or try to discover just what it is which

makes other businesses more progressive and more successful than your own.

It is impossible to read *a trade paper intelligently without becoming right up to date on such a vital matter as prices, and this perhaps is the chief and most important function of these publications.*

The Value of the Advertisements.

There is a whole wealth of information and instruction in the advertisements alone. Recollect that behind these advertisements is the considered selling policy of the finest firms in the trade, coupled with the work of the cleverest brains and artists in the publicity world. You may not be able to discover the whole of the ideas which are at the back of these usually very fine and artistic displays, but by a careful study of your trade paper advertisements you will be enabled to put a decidedly stronger "push" into your own publicity matter. Originality in business is excellent, but in advertising something of a special gift is necessary, and when you are undecided what advertising policy to adopt, it is wise to follow a firm which knows better than to go groping about in a feeble effort to be original. You cannot find a better set of models for "lay-outs" advertising than those in your trade paper.

On the salesmanship side, too, these trade advertisements are a complete book of special selling points and talk, all ready for you to use with fine effect when you too are trying to persuade one of your customers how splendid your goods are. The selling arguments used in these trade displays are often the mature result of a consultation of the whole of the selling staffs and managers of the firms concerned, in addition to the publicity specialists.

Information Bureaux.

Perhaps one of the best points about a trade paper is that the editor is so very pleased to help you. This gentleman has so much and so varied a stock of your trade information at his fingers' ends and he is so constantly in touch with the best men in the trade that, with only the barest amount of trouble to himself, he can give you just the information which you want and which you would probably get in no other way. It is one of the most comforting things in business, especially in the case of the smaller man, to be able to refer to a really independent and fully competent outside opinion. This is what the editor of a trade paper stands for and he is helpful to a degree. Looking at it from its most mercenary side, a trade paper editor can and does often save his readers many times the cost of their subscription to the paper.

Your editor will do almost anything for you short of financing your business. He will tell you what is the matter with your advertisements or he will praise them if they are good. He will

publish special articles on any subject you ask, always provided that it comes anywhere within the fair scope of your trade and is not too flagrantly opposed to his "policy." On occasions he will go so far as to publish your letters when you feel that you have some special matter on which you must express your opinions.

Your trade paper makes an excellent "Who's Who," because it keeps you constantly posted as to all the personalities of any note who do anything in connection with the trade and, especially for a traveller, this "news service" makes very excellent and impressive talk with which to fill up the odd gaps of general conversation. It is most useful, too, because many men in business are also connected with some other interests of a public or a semi-public nature, and if you are endeavouring to get an order from a man whom you know to be chairman of some society or association, you are better able to interest him than if you were entirely ignorant of his spare-time activities.

The Lessons of Others' Experience.

One of the best indexes to the state of trade,

and one of the most reliable, is the "Situations Vacant" columns. A careful comparison of these columns week by week will enable you to judge which trades are busy and by a little closer study and recording you can tell the firms who have trouble with their staffs. Some firms seem to want fresh assistants every week and it is easy to imagine the type of management which is in command. The box number idea is now the usual thing, but there is an interesting tone in many of the advertisements and you can often read between the lines. Incidentally, the majority of the advertisements insist on perfection as an absolute necessity. Truly, there are still some optimists.

The sad page of the trade paper is, of course, the list of the defaulters of various kinds. Here, for the most part, is room for pity; here, too, is a lesson in caution. What business man (unless he be very young and exceedingly lucky) can look at this weekly list without instantly feeling that the utmost care is necessary in the conduct of his affairs so that his name shall never appear in that list?

Insolvency and Bankruptcy

By R. W. HOLLAND, O.B.E., M.A., M.Sc., LL.D.

CHAPTER I

INTRODUCTORY

THE business builder has no fear of bankruptcy where he has made sure of his foundations and built solidly and well, but no man can trade for long without coming into contact with the "flotsam and jetsam" of the business world. Sooner or later he will find that some one or other of his customers has become involved in financial difficulties, and has invoked the aid of the Bankruptcy Act or has had the law of bankruptcy put into operation against him. It is well, therefore, that the business man should know where he stands, what are his chances of recovering outstanding debts, and how he must act if he desires to have his fair share of the division of his debtor's assets.

Deeds of Arrangement.

The law relating to bankruptcy is contained in the Bankruptcy Act, 1914, and the rules made for the working of the Act. It may happen, however, that a debtor finding himself in difficulties, lays his financial position before his creditors and sets out a proposal for the payment of a proportion of his debts. Such a proposal may be presented to some only of the creditors or to creditors generally, and, if it is accepted, a document called a deed of arrangement is drawn up. Such a deed has nothing to do with bankruptcy, and the arrangement with creditors may on the one hand stave off bankruptcy, whilst on the other hand it may be a good ground for instituting bankruptcy proceedings.

It should be remembered that the terms "insolvency" and "bankruptcy" are *not* interchangeable. The latter word is a technical expression, and the state of bankruptcy is reached only after the compliance with certain formalities has been followed by an adjudication in court. Insolvency is not a true technical expression, and in common language it means inability to meet liabilities as they fall due.

As a creditor who has agreed to a deed of arrangement, it behoves a trader to see that the provisions of the Deeds of Arrangement Act, 1914, and the Rules of Court made under the Act, are complied with. A deed of arrangement, whether for the benefit of all creditors or made by an insolvent debtor in favour of three or more creditors, is void unless registered with the Registrar of Bills of Sale at the central office of

the High Court within seven days after its execution. It is not necessary that the document be under seal, but in any event it must be stamped. The stamp duty is twofold: if the agreement is a deed the usual deed stamp is necessary, together with an *ad valorem* stamp denoting duty calculated at one shilling for every hundred pounds or fraction of one hundred pounds of the sworn value of the property passing. It is conceivable that no property passes, in which case the value of the stamp is based on the composition offered in the deed.

When a deed is expressed to be for the benefit of creditors generally, that is, all creditors, it is not operative until it has been agreed to by a majority in number and value of the creditors. The assent is evidenced by the creditor executing the deed or sending a statement of his assent attested by a witness to the trustee appointed to carry out the provisions of the deed. A creditor whose debt is not over £10 is not counted, except in reckoning the *value* of those who have assented.

When a trader is faced with the question of assenting to a deed of arrangement or not, he should consider carefully the advantages and disadvantages of the alternatives. If he assents, then, unless for some reason the deed becomes void, he is prevented from exercising his right to present a bankruptcy petition; at the same time he may be financially the gainer, if the debtor has explained his position fully. The cost of administering the estate is less, but the machinery for obtaining full disclosures of the debtor's means and property is not put into action. Should he fail to assent, the trustee will notify him of the execution of the deed and at the same time inform him that he may not present a petition in bankruptcy against the debtor after the expiration of a month from the date of the notice. If no such notice is sent by the trustee, the deed itself is sufficient grounds upon which the non-assenting creditor may proceed to set the law of bankruptcy in motion at any time within three months.

(See Chapter III.)

CHAPTER II

WHO MAY BE MADE BANKRUPT HOW TO PROCEED

A TRADER wishing to initiate bankruptcy proceedings against a defaulting debtor must first consider whether the bankruptcy law is applicable.

Who and what is the debtor? is a question to be asked. Generally the law is available against any person capable of making a contract under the law; but certain persons are not of full legal capacity. An infant may not usually be made a bankrupt, and no creditor would be so foolish as to present a petition against a person known to be under 21 years of age merely for the sake of establishing the law on the point, even where the debt incurred was an enforceable one, as, for

bankruptcy against a single woman will come to an end if she marries.

Limited companies are persons in the eye of the law, but they cannot be made bankrupt. On insolvency of such companies, the creditors may proceed to petition that the company be wound up, a proceeding similar to bankruptcy.

How to Proceed.

Having decided that it is worth while to set the



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example, for necessities. If petitions are presented against the members of a partnership, the fact that one of them is an infant will not take his share out of the partnership, however, and it is available for debts just like the shares of the adult partners.

The wholesale trader who has been supplying goods to a married woman in trade may be in doubt as to his rights against her. His doubts may be set at rest, for a married woman *in trade*, whether alone or jointly with her husband, may be made bankrupt. The retailer who has supplied household goods to a married woman not in business, has no redress in the bankruptcy courts, and it has even been held that proceedings in

law in motion, a creditor must find out the appropriate court. Except in the London bankruptcy district, the proper court is the County Court in the district in which the debtor has carried on business or resided for the longest period during the preceding six months. Choice is always given to the business district in preference to the residential district. Thus, if a person has carried on business as a boarding house proprietor for several years in Brighton and, on removal to Blackpool, has for two months carried on a similar business there and become insolvent, the petition will be presented in the Brighton County Court. It may happen that the creditor is unable to ascertain the address of the debtor, and in this case the

petition is presented in the London Bankruptcy Court, now part of the High Court, and situated in Carey Street, London. In London the County Courts do not attend to bankruptcy matters, so that a debtor carrying on business in the City, Bloomsbury, Bow, Brompton, Clerkenwell, Lambeth, Marylebone, Shoreditch, Southwark, Westminster, and Whitechapel would be proceeded against in the Bankruptcy Court at the High Court of Justice (Law Courts).

It might well happen that the debtor himself wished to present a petition, in which case he will be required to fill in the appropriate form and to make a deposit of £5 with the official receiver of the appropriate court. Full particulars may be obtained from the registrar of the court or one of his clerks, and the right court can be chosen by an examination of the list of County Courts mentioned in Section 50. It is always well to have legal advice and to employ a solicitor to act, otherwise, in case of a petitioning creditor, he may incur needless costs which cannot be recovered from the debtor's estate.

CHAPTER III

ACTS OF BANKRUPTCY

BEFORE a petition can be presented against a debtor, the following conditions must be complied with—

1. The debt owing by the debtor to the petitioning creditor must amount to £50 at least. Several creditors may join in petitioning, and the total debt must be at least £50.

2. The debt or debts in question must be a liquidated sum, that is, a sum of money ascertained as due or accruing due at a known and certain time, not, for example, a mere claim for damages.

3. An act of bankruptcy must have been committed by the debtor within the previous three months.

4. The debtor must be domiciled in England, or within the previous year he must have had a house or business in England or been ordinarily resident in England. Thus a foreign traveller staying for a few weeks in England at an hotel, and avowedly here on holiday, would not come within this rule, but a foreigner having a furnished house for three months at a seaside resort might well come within this condition.

The meaning of the second condition requires some further explanation. It is necessary for a petitioning creditor to show that a debtor is really insolvent, and Section 1 of the Bankruptcy Act, 1914, sets out the various acts of a debtor (called acts of bankruptcy) upon which a petition may be founded. These acts are either dealings with property by the debtor, or personal conduct of the debtor or proceedings taken against him, and

on account of their importance they are set out in full as follows—

1. Any conveyance or assignment of his property by a debtor for the benefit of his creditors as a whole.

2. Any *fraudulent* conveyance or transfer of his property or of any part of his property.

3. Any payment or transfer of property to a creditor with the intention of preferring that creditor to other creditors in the payment of debts (called a *fraudulent preference*).

4. The act of denying himself to his creditors *with the intention of defeating or delaying them*, including the act of leaving England, or being away and remaining away; or remaining in the house with a like intention.

5. Seizure by the sheriff (levying of execution) of the debtor's goods under a judgment of the court, following by a sale by the sheriff or by the sheriff holding for 21 days.

6. The debtor's own declaration that he is unable to pay his debts. This is evidenced by his petition presented against himself or by his filing a statement as to such inability on the proper form.

7. The service of a bankruptcy notice against the debtor, followed by non-compliance with its terms.

8. The giving of notice by the debtor to his creditors that he has suspended payment or is about to do so.

Bankruptcy Notice.

The meanings of the foregoing acts of bankruptcy are fairly obvious even to the layman, but one or two points deserve attention; more particularly, No. 7 in the list calls for some explanation. A *bankruptcy notice* is a notice issued by the court to a debtor requiring him to pay a judgment debt in accordance with the terms of the judgment, or to give security or compound to the satisfaction of the Court. The notice goes on to say that within seven days after service payment must be made or the court must be satisfied that the debtor has a good set-off or counter claim which was not available when the action in which the judgment was obtained was tried.

You should notice carefully that a *bankruptcy notice is not an act of bankruptcy*. It is the failure on the part of the debtor to comply with the notice that constitutes good ground for presenting a petition. Hence the act of bankruptcy is not complete when the notice is served but only after the expiration of seven days from service. Suppose then that a trader, tired of pressing a debtor customer, wishes to proceed in bankruptcy but has no available act of bankruptcy on which to proceed. He will proceed as follows—

1. Sue for the debt and obtain a judgment.

2. Produce to the registrar of the proper court an office copy of the judgment, together with two copies of the notice on the proper form, and a request for the sealing and issuing of the bankruptcy notice, also made on the appropriate form.

3. The notice when issued may be served by an officer of the court, by the creditor, or by his solicitor.

4. Wait three days for notice from the debtor of any counter-claim, and a further four days for payment of the debt.

5. If the debtor fails to comply, then file a bankruptcy petition in the proper court within three months of the failure.

If the notice is served on 1st March, no petition can follow until after the 8th March, and not later than the 8th June.

Service of Petition.

The details of service of a petition and the accompanying formalities cannot be considered here. The wisest plan is to employ a solicitor

creditor is employing legal advice. Other creditors, unless deeply involved, may well act for themselves so far as may be necessary in the way of proving the debt and similar acts.

CHAPTER IV

THE OFFICIAL RECEIVER AND HIS WORK

WHERE a petition is presented by a debtor, the court will generally make an order for the



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from the beginning, but remember that if the estate of the debtor proves to be entirely gone, the costs incurred cannot be recovered. A special order of priority of costs is laid down in the Bankruptcy Rules, and quite a number of matters must be paid for before the costs of the petitioning creditor are paid and even before the deposit of £5 is returned to him. For the remainder of this section such detail only as is necessary to illustrate the position of the creditor will be included, as it will be assumed that a petitioning

protection of his property without further parley.

The Receiving Order.

Such an order is called a receiving order. Even where the debtor himself files a petition, the court is not bound to make a receiving order, and in any case where the debtor has an ulterior motive the order would be refused. It is safe to say that where a debtor genuinely wishes to relieve himself of responsibility and to take advantage of the

rules of bankruptcy and is not "abusing the process of the court," a receiving order will be made. Where the petition is presented by a creditor, a day is fixed for the hearing at least eight days after the service of the petition. At the hearing the creditor is expected to prove—

1. The act of bankruptcy committed within three months;
2. The debt on which the petition is founded; and
3. That the petition has been served on the debtor.

The court, on being satisfied on these points, will make a receiving order which constitutes the Official Receiver, who is an officer of the Board of Trade attached to the court, the receiver of the debtor's property. The making of this order terminates the right of the creditors to enforce their claims by ordinary remedies against the debtor's property, so that, unless a creditor is a secured creditor, he must be content with his share on the distribution of the debtor's property.

A landlord may possibly be in a favoured position, since he has the right to distrain for a limited amount of arrears even after the receiving order is made. Sometimes the debtor is carrying on a business which, notwithstanding his failure, has some promise left in it; should the Official Receiver come to the conclusion that it would benefit the creditors to carry on the business for a time, and yet the work is beyond him, he has the right to appoint a special manager to carry on the business and to act until a Trustee in Bankruptcy is appointed. Traders should watch the *London Gazette* and also the local papers, for, by law, the fact of a receiving order having been made must be advertised in the *Gazette* and in local newspapers.

The Board of Trade.

The working of the Bankruptcy Acts is in the hands of the Board of Trade, a special branch of which, called the Bankruptcy Department, supervises the administration of bankrupts' estates through its officer, the Official Receiver. It is the duty of the Official Receiver to undertake the administration of the estate when the receiving order is made. He is a kind of official trustee, acting on behalf of the estate until a trustee is appointed and at any time during a vacancy in the trustee's office. As this official is an officer of the Board of Trade, the receiving order actually places the debtor's property in the hands of the Board, and all the conduct of the Official Receiver is exercised on behalf of the Board.

Statement of Affairs.

No one should be in a better position than the debtor himself to know the reasons for his insolvency, and the stages by which he has come to financial ruin. It stands to reason that he should

be able to give an accurate account of his liabilities, and in consequence of this reasonable conclusion the debtor is called upon to prepare a statement in relation to his affairs to be submitted to the Official Receiver. The statement includes particulars of his assets and liabilities, the names and addresses of his creditors, the nature of his liabilities, and particulars of securities, if any. There is a proper form for the making out of this statement, which includes a Deficiency Account showing what has happened to bring about the insolvency. If the petition is presented by the debtor, he has three days from the date of the receiving order in which to present his statement. On a creditor's petition the time is extended to seven days. In spite of theory, a debtor is not always able to account for his losses, and where financial transactions have been complicated the Official Receiver may allow the debtor expert assistance in the preparation of the statement and Deficiency Account.

Duties of the Official Receiver.

The Official Receiver must, on receipt of the statement of affairs, prepare a summary, together with a report on the debtor's conduct. Sometimes a debtor wishes to make a proposal to his creditors, even after a receiving order has been made against him. In such a case the proposal is submitted to the creditors through the Official Receiver, who, in laying it before the creditors, must report on the proposals. Apart from his duties in relation to the statement of affairs, the Official Receiver is responsible for the calling of meetings of creditors, the first of which is held within fourteen days of the receiving order. With the notice of this meeting, the Official Receiver will forward a copy of the front sheet of the statement, together with his comments thereto. All creditors appearing on the books are notified, and a form of proof is sent to them, together with forms of general and special proxies. Sometimes a scheme or composition such as is mentioned above is submitted for the consideration of the creditors at the first meeting. When this is done the Official Receiver should send a copy of the scheme with his report, together with a voting letter; this latter, if returned duly completed, gives to the Official Receiver authority to vote on the particular matter of the scheme which is before the creditors.

Composition.

A composition arranged after the making of the receiving order is quite different from a deed of arrangement. The latter, as we have already indicated, is a matter quite outside the scope of bankruptcy procedure, although it may be made a basis of a bankruptcy petition. A scheme or composition accepted by creditors after a receiving order has been made, is a process which is in lieu

of bankruptcy, but which is, nevertheless, governed by the Bankruptcy Act. It differs from a deed of arrangement in that, when properly accepted, it binds all creditors with very few exceptions, whereas a deed of arrangement binds only those creditors who have accepted it or who after one month from notice being given fail to take exception to it. Any such scheme must be first recommended by the Official Receiver, and then be accepted by a majority in number of the creditors,

CHAPTER V

PROVING THE DEBT—MEETINGS OF CREDITORS

THE average creditor interested in bankruptcy proceedings will, in all possibility, find that the only formalities that he is called upon to observe will be proving the debt, and where he does not wish to attend meetings, filling in a form of proxy.



Photo

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A CHINA AND GLASS DEPARTMENT
(Kennards, Ltd.)

such majority representing claims to the extent of three-fourths of the total liabilities proved for. It should be remembered that in this case all creditors who have proved are counted, and those who do not vote are not merely passive but are deemed to be against the scheme. Having passed the creditors, the scheme becomes operative only when confirmed by the court, and the court will refuse unless the scheme shows five shillings in the pound for all unsecured creditors. Where the composition is approved by the court the receiving order will be annulled, but the property of the bankrupt is, nevertheless, administered under the scheme.

Proof.

As a rule, before a creditor is allowed to vote at a meeting he must prove his debt, and he will receive from the trustee or the Official Receiver a copy of the general form for proof of debt. The proof can be completed either by the creditor himself or by someone in his employ duly authorized to make the necessary affidavit. It should be remembered that the proof of a debt cannot be admitted for voting purposes at the first meeting until it has been lodged with the Official Receiver, and this formality should be observed before the time mentioned for this purpose in the notice convening the meeting.

The affidavit, which is part of the proof, can be sworn before the trustee or the Official Receiver or any official appointed by the Board of Trade or the court for the purpose.

The proof really amounts to an affidavit verifying the debt, and if the debt exceeds £2 it must be stamped with a proof stamp of the value of one shilling. When first presented to the Official Receiver before the first meeting of creditors, admission of the debt is provisional only, and is made for the purpose of voting. If a trustee is appointed other than the Official Receiver, as he must be if the estate is likely to realize more than £300, the trustee takes over all proofs from the Official Receiver and, if they have not been dealt with by the Official Receiver, the trustee must notify the creditors within twenty-eight days of receiving them, whether or not he admits the debts or rejects them. In the case of rejection, the notice given to the creditors must be in writing, and the creditor has the right to appeal against the rejection at any time within twenty-one days. If the creditor hears nothing he may take it that in due course he will be informed by the trustee that a dividend is about to be declared, and this is equivalent to admission of the debt. It is not always too late to send in a proof even after the notice of intention to declare a dividend, because such notice generally fixes a final day for receiving proofs. In this case, if the proof is rejected, the person claiming to be a creditor is restricted to seven days during which he may appeal. All rejected proofs have, however, to be filed with the Registrar of the County Court or (in London) the Bankruptcy Court. Certain monthly formalities in relation to proofs take place, but these are matters more for the trustee than for the creditor.

Proof for Interest.

In proving for debts trade discounts cannot be proved for, and where discount for cash is allowed beyond 5 per cent, the excess must also be deducted. Where a debt carries interest, either by agreement or under any statute, interest can be proved up to the date of the receiving order, and provided that it does not exceed 5 per cent, dividend will be paid on it, but interest in excess of 5 per cent will not be paid till capital and interest under 5 per cent have been paid in full. Judgments, money paid by surety, money due under an award in an arbitration, money due on an overdue instrument, carry interest up to the date of the receiving order, bills of exchange at the rate of 5 per cent, but 4 per cent in all other cases. Where a creditor has intimated to his debtor that if the debt be not paid by a certain date interest will be chargeable, proof will be allowed for such interest from the date mentioned to the date of the receiving order.

Proxy.

Where a trader is unable to be present at a meeting of creditors, he may give authority to a representative to attend and vote on his behalf. Such person must be in his service as a regular employee or the trader may give authority to the Official Receiver to vote. The method of delegation is by means of a proxy, which, unlike the proxy given by a shareholder for company meetings, requires no stamp. The form of proxy is forwarded to the creditor by the Official Receiver, and the creditor completes it if he desires to take advantage of it. The form may be a general one or a special one, the latter being given for a specified meeting and for special purposes, namely,

(i) to vote on appointment of a trustee or members of the Committee of Inspection ;

(ii) to vote at adjournments of the specified meeting ; and

(iii) to vote on a composition scheme offered by the bankrupt.

The filling up of the blanks in the form is an important matter. It must be done in the handwriting of the creditor or a person in his regular employ, or by a Commissioner of Oaths.

A form of proxy is given on page 1154.

When completed, the form must be lodged with the Official Receiver or trustee not later than 4 p.m. on the day before the meeting at which it is to be used, or, in case of the first meeting, it must be lodged within the time stated in the notice calling the meeting.

Adjudication.

We have already noted that insolvency is not bankruptcy, nor does a receiving order make a debtor bankrupt. The status of bankruptcy depends in some degree on the creditors. If at the first meeting the creditors fail to pass any resolution, or if a majority in value are in favour of the bankruptcy proceedings continuing, or if the debtor's scheme fails or he himself asks that the proceedings shall go on, then the court will *adjudicate* the debtor bankrupt. The effect of this declaration of bankruptcy is that the debtor's property, which up to this point has been in the care of the Official Receiver, now passes from the debtor entirely into the hands of the *trustee in bankruptcy* to be administered and realized and ultimately divided amongst the creditors. The order of adjudication is advertised in a local paper and in the *London Gazette*. It is a wise plan for the trader who gives credit to keep a careful watch on the notices in the local press and upon extracts reproduced there from the *Gazette*.

The Trustee.

The creditors have the right to appoint one of their number to the office of trustee, or they may elect a stranger to fill that position. Since the trustee has the handling of the estate of the

debtor, security is required, and when this has been given, the Board of Trade will issue a certificate of appointment. Should the creditors fail to appoint a trustee within a month after adjudication, the Board of Trade will make an appointment. The creditors have the right to make a substituted appointment in place of the Board's appointment at any time. No appointment will be made if the debtor is dead or if his property is likely to realize less than £300.

meets, and a quorum is a majority of the committee; thus where there are five members, three will be a quorum, and any act of the committee at a meeting of three must be agreed upon by two members. A creditor vacates his seat on the committee by absenting himself from five consecutive meetings, or by himself becoming bankrupt, or by giving notice in writing to the trustee of his desire to resign.

The permission of the Committee of Inspection,



Photo

PACKING AND CARDING ROOM
(Britains, Ltd.)

Kealeys, Ltd.

In these cases the Official Receiver acts as trustee.

Committee of Inspection.

The creditors are entitled to appoint a small committee to supervise the work of the trustee, and this "Committee of Inspection" authorizes the trustee to do certain things which he may not do on his own authority. The committee may consist of not more than five nor less than three creditors. It is not an essential, since the Board of Trade can do all acts that the committee is appointed to do. A creditor appointed on the committee should know its duties, however. It must meet once a month and any member can call it together. It acts on the authority of a majority of those present, provided a quorum

or of the Board of Trade, is required if the trustee thinks it is necessary—

- (i) to continue the debtor's business as a means of satisfactory winding up;
- (ii) to bring an action for the benefit of the estate;
- (iii) to employ legal assistance or obtain advice;
- (iv) to give credit on sale of the bankrupt's estate;
- (v) to raise money on mortgage for the estate;
- (vi) to divide the debtor's property without realizing it;
- (vii) to allow the debtor an allowance or to employ him in the business; and
- (viii) to refer matters to arbitration.

GENERAL PROXY

In the High Court of Justice

IN BANKRUPTCY

No. of 19..

RE *John Brown*

I, *Tom May*, of *4 The Mall, Beckenham, in the County of Kent*, a creditor, hereby appoint *the Official Receiver in the above matter* to be my general proxy to vote at the Meeting of Creditors to be held in the above matter on the *third* day of *May*, 19.., or at any adjournment thereof.

Dated this *thirtieth* day of *April*, 19..

[Signed

Tom May.

Signature of Witness

John Gay,

Clerk to Tom May.

Address

116 The Grove, Bromley, Kent.

Note.—If the creditor leaves his clerk to fill in the proxy the clerk must sign a declaration to the effect that the insertions written in the proxy are in the clerk's own handwriting and have been made at his employer's request, and in his presence before the employer signed the form.

Other matters in the normal course of administration may be done by the trustee on his own initiative. Thus, he may—

- (i) sell the property privately or by auction ;
- (ii) give a good discharge for money received ; and
- (iii) act for the bankrupt in recovering debts due, but not to sue without consent.

CHAPTER VI

WINDING UP THE ESTATE

CREDITORS for all debts and liabilities, whether present or future, certain or contingent, may prove their debts in the bankruptcy, but any debt or liability contracted *after* notice of an available act of bankruptcy is a provable debt, but proof will not be accepted. Consequently, a creditor giving credit with a knowledge that an act of bankruptcy has been committed will not receive a dividend in respect of the debt, but when the bankrupt receives his discharge, liability for the debt will be gone. Certain other debts are not provable, but these can be of no general interest to a trader.

Claims Other than by Proof.

Certain creditors have priority over others in the matter of payment. The creditors in question are known as preferential creditors, and include creditors for—

1. Local rates which have become due and payable within twelve months before the commencement of the bankruptcy, and taxes (e.g. income tax) assessed on the debtor up to the 5th April next before the commencement of bankruptcy. If more than a year's assessment is due, then only one year is preferential; the balance must be proved for in the ordinary way.

2. Wages and salary of a clerk or servant for a period of not more than four months before the bankruptcy and not exceeding £50.

3. Wages of a labourer or workman during the preceding two months and not exceeding £25.

4. Workman's compensation up to £100 for each case. If, however, the bankrupt was insured against such liability, the workman makes claim against the money received from the insurance company.

5. Contributions in respect of National Insurance that the bankrupt should have made on behalf of his workpeople.

Also the trustee may repay to an apprentice or articulated clerk a portion of the premium, or he may arrange for the transfer of indentures.

In addition to the foregoing, a landlord has the right to help himself by distraining, notwithstanding bankruptcy. He may distrain for not more than six months' rent due before the adjudication and prove for any balance. If it should happen that any preferential claims are due,

money recovered from a distraint may have to be handed over to the preferential creditors. Where a creditor holds security he may retain the security, having valued it, and then prove in the ordinary way for the balance of the debt. On the other hand, if he wishes he may surrender his security and prove for the whole of the debt. Where a value is placed on the security by the creditor, the trustee may redeem it and allow the creditor to prove for the balance.

Property of a Bankrupt Available.

The property of the debtor vested in the trustee for division consists of all property, whether in his possession or coming into his possession after adjudication, either in England or abroad, including money, goods, choses-in-action, and land. Every debtor must assist to discover property belonging to his estate. Certain exemptions are made. Tools of the debtor's trade, necessary wearing apparel and bedding for himself, his wife and children, to the value of £20 at the utmost, will not pass to the trustee, nor will goods held by the debtor as trustee for another. The trustee in bankruptcy is not bound to take over partly paid stocks, or unprofitable investments. Instead, he may disclaim, and the parties injured by the disclaimer can prove as creditors to the extent of their injury. The trustee must exercise his right to disclaim within twelve months of appointment or twelve months of his discovery of the onerous property, subject to special provisions as to leaseholds.

Other Property Divisible : Reputed Ownership.

Goods of other persons in the possession of the bankrupt, and at his order or disposition, are in some cases liable. This liability attaches in cases where the goods are in the bankrupt's hands in his trade or business with the consent of the true owner, so that the bankrupt is the reputed owner of the goods, and so could, if he wished, obtain credit on the strength of his possession. This state of things is founded on the doctrine of reputed ownership, found in the "order and disposition clause" in the Bankruptcy Act. This matter is important to the trader who lets out property on the hire-purchase system. Where machinery, for example, is hired for the purposes of trade and business, and is apparently at the hirer's order or disposition, such machinery would pass under the "order and disposition clause" into the hands of the trustee in bankruptcy, and the only remedy of the trader would be to prove in the hirer's bankruptcy for his loss.

The doctrine known as the "doctrine of relation back" also plays its part, and places property, which the bankrupt has assigned during the period between the first act of bankruptcy on which the petition could have been presented and

the adjudication, at the disposal of the trustee. The doctrine is so named because, while the trustee's title does not actually come into force until adjudication, it relates back to the time of the earliest available act of bankruptcy which could have been taken advantage of, i.e. any act occurring within three months of the presentation of the petition. The doctrine, however, will not affect genuine dealings, provided such dealings take place before the receiving order, and the

as have not proved their debts. A notice must also be inserted in the *Gazette*.

The dividend should be declared within two months of the date of the notice, and if for any cause it is delayed, a fresh notice must be gazetted. When the dividend is declared, notice must be given showing the amounts realized and the expenses incurred.

The payment of dividends is made by cheques on the Bank of England, or money orders, which



Photo

Kealeys, Ltd.

A SHOW OF FRENCH MILLINERY
(Kennards, Ltd.)

other party has no notice of an available act of bankruptcy.

Dividends.

It is necessary that such steps be taken as will enable a trustee promptly to declare dividends within the periods prescribed by the Bankruptcy Act. All proofs should be dealt with as stated above, and on the first day of each month the trustee should file with the registrar a certified list of proofs received, and forward therewith all proofs, whether admitted or rejected. Before a dividend is declared the trustee must give notice of his intention to do so to all such creditors mentioned in the bankrupt's statement of affairs

are prepared by the Board of Trade on the application of the trustee.

Disqualifications.

A person who is a bankrupt and has not received his discharge may enter into business, but, of course, at any time the trustee in bankruptcy may interfere and require the after-acquired property of the bankrupt for division amongst creditors. A bankrupt is handicapped for further business in that he may not obtain credit to the amount of £10 or upwards from any person without disclosing that he is an undischarged bankrupt. To obtain credit and fail to make the disclosure

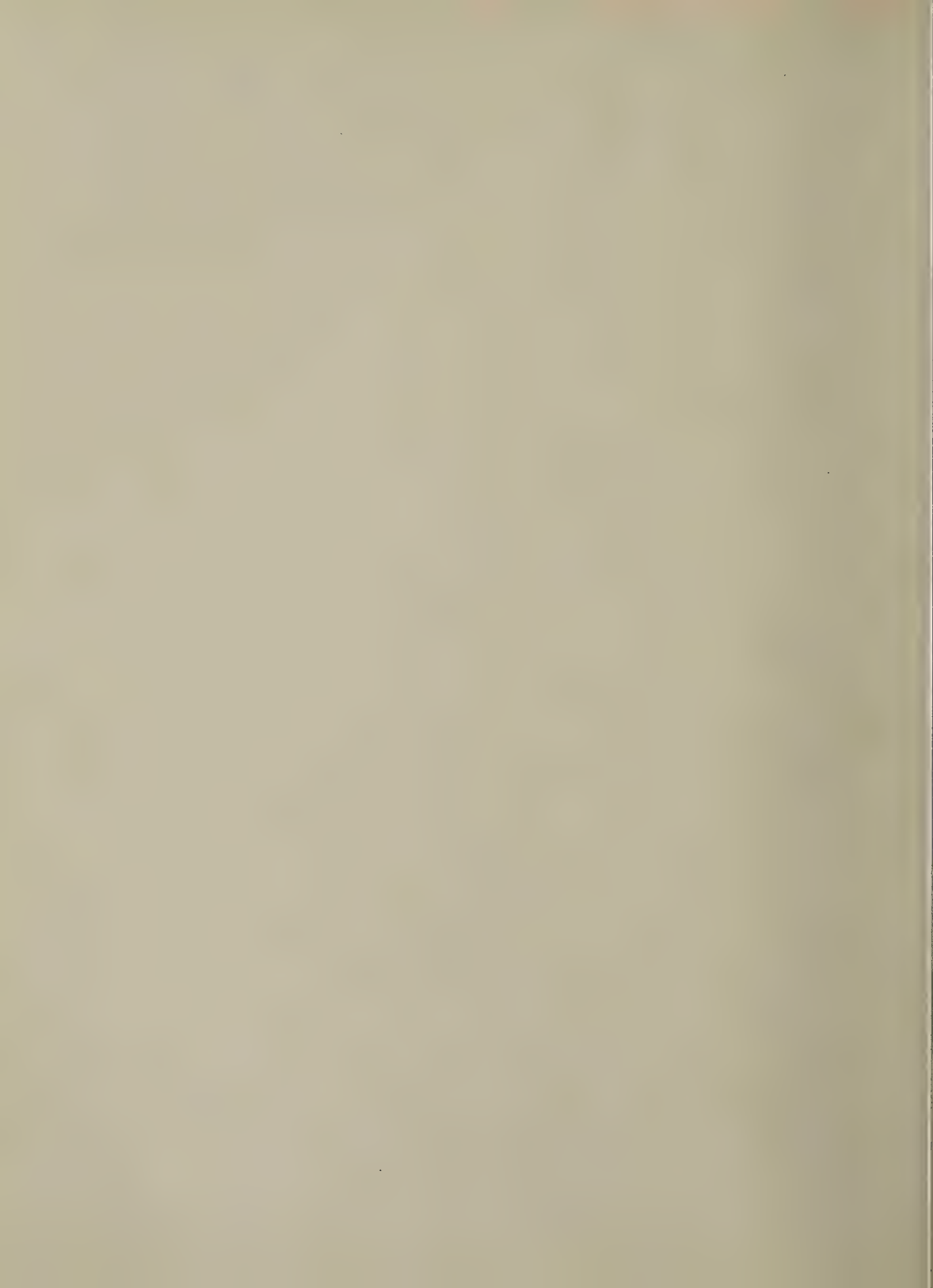
is a crime punishable by imprisonment. In addition to this, a bankrupt is disqualified from continuing in or entering public life.

One of the disabilities a bankrupt undergoes in the course of the administration is his public examination, which takes place immediately after the Receiving Order is made or as soon as convenient after the submission of the statement of affairs. It is a formality that is adjourned from time to time, and any creditor who has proved may put questions to the debtor. The Official Receiver and the trustee, if one has been appointed, will take part in the proceedings, which are conducted by the registrar of the court. The debtor is examined on oath, and particulars of the examination are taken down in writing. At any time after the conclusion of this examination the

bankrupt can apply for his discharge, the granting of which will depend on the causes of his bankruptcy and his conduct before and during the proceedings. When once granted the discharge releases him from all liability for debts provable in bankruptcy.

If no order of discharge be made, the bankrupt is disqualified during his life, or, in case of misconduct, even after discharge, for five years at the outside, from sitting or voting in the House of Lords if a peer, from being elected to the House of Commons if a commoner, from sitting or voting if a member, from being put on the commission of peace, from acting as a justice if already on the justice roll, and from holding or acting in the office of mayor, alderman, councillor, guardian, or similar office on a local government body.

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TO COMPLETE WORK
(VOLS. I AND II.)



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